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ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 21st day of October, 1960.

COMMISSION

Mr. M. A. MacPherson, Q.C.	Chairman
Mr. H. Anscomb	Member
Mr. A. H. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
Mr. A. Platt	Member

COMMISSION COUNSEL

Mr. A. G. Cooper, Q.C.	
Mr. G. S. Cumming	
Mr. H. W. Ellicott	Adviser
Mr. F. W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary



Ottawa, Ontario,
Friday,
October 20, 1960.

On commencing at 9:30 a.m.

THE CHAIRMAN: Order, please. Mr. Frawley?

DIRECT EXAMINATION BY MR. FRAWLEY (resumed):

Q. Thank you, Mr. Chairman. Dr. Little, we had reached the bottom of page 5 yesterday when we adjourned for the day, and if you will, please, pick it up from there and continue with your evidence.

A. Yes, Mr. Frawley.

There are a number of reasons why costs related to length of haul did not increase as much percentagewise as costs not related to length of haul in the western, eastern and southern districts of the United States during the period 1950 to 1958. Some of these reasons are:

1. Innovations, such as centralized traffic control and dieselization, have had more cost-reducing effect in line-haul than in terminal areas.
2. Much of the fixed investment in the line-haul area, such as road bed and rail investment, have not required replacement and do not depreciate at as rapid a rate as do many of the fixed cost investments in the terminal areas -- and these line-haul fixed investments make up a greater percentage of total line-haul costs than do



1
2 fixed investments in the terminal area of rail
3 costs. This has tended to result in a greater
4 addition to terminal fixed costs than to line-
5 haul fixed costs.

6 3. Labor costs make up a great per cent of
7 terminal expense than line-haul expense.
8 Consequently, the significant increases in
9 labor costs, as a part of total railway costs,
10 have had more influence in increasing terminal
11 costs than line-haul costs.

12 It is not inferred that significant cost
13 reducing innovations have not been instituted in the
14 terminal areas of the Canadian railway transportation
15 system. Nor is it inferred that there will be fewer cost-
16 reducing innovations in the terminal areas than in the
17 line-haul areas of rail transportation during all periods
18 of time in the future. It is well known that improved
19 materials handling systems and many other innovations have
20 materially reduced terminal costs. But there is
21 considerable evidence in support of the conclusion that
22 factor cost increases (cost of an hour of labor or a unit
23 of electric current, for example) have been more offset
24 by innovations in the line-haul than in the terminal area
25 of railway costs over the long run.

26 The statistics presented in Tables I and II
27 indicate that during the period 1950 to 1958, costs
28 related to length of haul did not increase as much as did
29 costs unrelated to length of haul in the eastern, western,
30 and southern districts of the United States. This means



1
2 that during this period it was becoming increasingly more
3 costly per ton-mile to handle short-haul traffic than
4 long-haul traffic. While these statistics pertain to
5 transportation costs for freight in the United States,
6 the economic reasons responsible for these growing
7 differences in costs for varying lengths of haul are
8 applicable to Canada. The economic causes responsible
9 for costs unrelated to length of haul increasing more
10 rapidly, percentagewise, than costs related to length of
11 haul -- and I might add here, from 1950 to 1958 in the
12 United States -- are not restrained by national
13 boundaries.

14 If it is true that line haul costs have not
15 increased as much as terminal costs, the application of
16 a flat percentage rate increase places an undue cost
17 burden on the long-distance shipper. It fails to give to
18 the long-distance shipper the advantages of actual cost
19 reductions. It forces the long-distance shipper to
20 subsidize the short-distance shipper by the extent of
21 his overpayment through excessively high rates.

22 If rail carriers justify an application for a
23 change in rates on the basis of a change in costs, a
24 flat percentage change in rates will not adjust proposed
25 rates for varying distances to new costs under
26 circumstances where line-haul and terminal costs have not
27 increased by the same relative amounts. Under these
28 circumstances, flat percentage changes tend to destroy
29 the relationship between cost and rates. Assuming that
30 the uniform scale of mileage class rates properly reflects



costs before a change of railway costs is incurred, a rate change formula intended to properly reflect changes in costs through changes in rates for varying shipping distances must:

Q. Before you proceed to those two numbers, the uniform scale of mileage class rates -- you can identify that by reference to the Judgment of the Board which came into effect and the uniform scale of mileage class rates which came into effect in Canada on March 1, 1955?

A. Yes. I so refer to it in that way at a later point.

1. Be capable of computing an over-all percentage change in rates for each mileage block so as to correctly reflect changed costs when the percentage change in costs related to length of haul has been different from the percentage change in costs not related to length of haul.

2. Be capable of applying the computed over-all percentage increase in rates for varying distances to existing tariffs, thereby eliminating the need of changing existing tariffs each time a change in rates is required.

These are the things that must be accomplished by any kind of a new proposal.

THE COST BASED RATE INCREASE FORMULA.

Q. Just for clarity's sake, it is rather



1
2 obvious this cost based rate increase formula is what you
3 are introducing in this submission?

4 A. That is correct.

5 Rate increases can be applied so as to reflect
6 changes in costs for varying lengths of haul. This can
7 be accomplished, without replacing the tariffs in
8 existence, by the computation of a new uniform scale of
9 mileage class rates for class 100 rates based upon the
10 measured changes in costs related and not related to
11 length of haul. The difference between the new class 100
12 rate for each mileage block and the old class 100 rate
13 then may be used as the basis for determining the per
14 cent of change in class 100 rates for each mileage block.
15 The cost computed per cent of change for each mileage
16 block may then be distributed for application to existing
17 tariffs for the purpose of determining all authorized
18 rate changes. The computation of the new uniform scale
19 of mileage class rates for class 100 rates can be easily
20 and quickly computed, and the per cent of rate change
21 for each mileage block can be provided on a single sheet
22 of paper. The procedure for accomplishing this will be
23 hereafter be referred to as the cost based rate increase
24 formula.

25 Q. Dr. Little, it may help if I were to ask
26 you, you seek to compute a new uniform scale of mileage
27 class rates for class 100 rates. You are not doing that
28 for the purpose of interfering or amending what is now
29 in force in Canada as the class 100 in the uniform scale
30 of mileage class rates?

A. Not in any way.



1
2 Q. May I say that it is part of your pro-
3 cedure, part of your working papers, leading to the
4 formula which you are presenting?

5 A. That is right. I am taking the cost
6 mileage class scale and relating that only to the
7 increase in the measured cost during the period in
8 which costs have reputedly been increased.

9 Q. And raising it for the percentage which
10 you do say should be added to the existing ones to
11 bring about a rate increase?

12 A. That is right.

13 Q. All right.

14 A. The explanation of the application of
15 this Formula is as follows:

16 1. What is the Cost Based Rate Increase Formula:

17 (a) The Cost Based Rate Increase Formula
18 provides a means of changing rates so that
19 the new Uniform Scale of Mileage Class Rates
20 and all other rates authorized for a general
21 rate change will accurately reflect separately
22 computed increases in Costs Related to Length
23 of Haul and Costs not Related to Length of
24 the Haul.

25 (b) Taking the taper of the Uniform Scale
26 of Mileage Class Rates which existed prior to
27 the change in Costs Related and Not Related to
28 the Length of Haul as being proper, it merely
29 changes the Uniform Scale of Mileage Class
30 Rates so as to reflect the measured percentage
extent of change in Costs Related and Not



Related to Length of Haul.

2. Traffic covered by the Cost Based Rate Increase Formula:

(a) The Cost Based Rate Increase Formula may be applied to all rates authorized by the Board of Transport Commissioners to be increased.

(b) As a procedure for replacing the horizontal rate increase method, it may be used to apply to changes in the same rates formerly covered by the horizontal method or rate increases.

I think this is a very central point.

Q. Will you go back to (b) where you say: ". . . it merely changes the Uniform Scale of Mileage Class Rates so as to reflect the measured percentage extent of change in Costs Related and Not Related to Length or Haul."

Again you are taking this, as I understand it, merely as a means to obtain the formula which you seek to recommend to this Commission for application?

A. That is right.

THE CHAIRMAN: In (b) would you take out the taper altogether?

THE WITNESS: Would you repeat that, sir?

THE CHAIRMAN: Are you taking out the taper?

THE WITNESS: The taper will be altered in accordance with the changes in the cost, that is correct.

THE CHAIRMAN: The taper is now there as a corrective measure?



1
2 THE WITNESS: It is a base starting point and
3 as costs have increased during the given period of time
4 as measured by the rail carriers and the Board of
5 Transport Commissioners, then these costs which have been
6 measured are applied, are simply added on to the old
7 taper.

8 THE CHAIRMAN: The old taper is still used?

9 THE WITNESS: And modified by the extent of
10 cost change, the measured cost change.

11 MR. FRAWLEY: Q. For rate increase pur-
12 poses?

13 A. Yes.

14 Q. Let us be perfectly clear: when you are
15 completely finished and assume that the Board adopts
16 in toto your recommendation the present Class 100 in
17 the Uniform Scale of Mileage Class Rates prescribed by
18 the Board in 1955 will not be changed one iota, it
19 will still be there?

20 A. It will be changed to the extent that
21 costs have increased percentage-wise.

22 Q. You told me a moment ago that you are
23 not seeking to change the existing scale of class rates,
24 mileage class rates?

25 A. That is not quite correct. I am changing
26 it to the extent that measured costs have been increased.

27 THE CHAIRMAN: The figures would change?

28 THE WITNESS: When you have a taper with a
29 rate scale if the costs do not in fact go up in step
30 in costs related and not related to length of haul the



1
2 taper will be altered in accordance, in fact, with the
3 changes in these relationships of costs. So, you start
4 with a given assumed correct rate scale and you measure
5 what the actual cost change has been and simply add on
6 to that rate scale the measured changes in the costs.
7 If there are remarkable varying relations of changes
8 between the costs related and not related to length of
9 haul then this alters the scale to that extent.

10 THE CHAIRMAN: After the increase has been
11 applied?

12 THE WITNESS: After the increase has been
13 applied.

14 MR. FRAWLEY: Q. In other words, if the
15 Class 100 rate was today \$1 for 50 miles it is going
16 to be increased; therefore, it is going to be something
17 more?

18 A. That is correct.

19 Q. It is the determination of the something
20 more that your paper seeks to present?

21 A. That is correct.

22 Q. I think as far as I am concerned that
23 clarifies it.

24 MR. SINCLAIR: It does, yes.

25 MR. FRAWLEY: Well, it clarifies it, but how
26 my friend may wish to un-clarify it is something else
27 again.

28 THE WITNESS: (c) The Formula does not
29 seek to determine whether the existing
30 Uniform Scale of Mileage Class Rates for



1
2 application between points in Canada is
3 equitable, proper, or accurate as a reflection
4 of costs. It assumes that the Uniform Scale of
5 Mileage Class Rates as prescribed and adopted
6 by the Board of Transport Commissioners as of
7 March 1, 1955 represents an equitable scale of
8 rates. The only change which the Cost based
9 rate increase Formula will make over the
10 course of time in this scale of rates is
11 to change the rate for each mileage block to
12 the extent that line-haul and terminal railway
13 costs have increased.

14 COMMISSIONER ANSCOMB: Is that not your exact
15 answer to what they have been arguing about?

16 THE WITNESS: Precisely, that is my exact
17 answer.

18 (d) The Formula does not determine what are
19 the Costs Related to Length of Haul and the
20 Costs Not Related to Length of Haul for
21 any given period. It does not determine how
22 much Costs Related to Length of Haul and/or
23 Costs Not Related to Length of Haul have
24 changed during any given period. Its applica-
25 tion requires that the extent (percentagewise)
26 of change in Costs Related to Length of Haul
27 and Costs Not Related to Length of Haul since
28 the time of the last rate change be determined.
29 Whether this determination is made by the rail
30 carriers subject to review by the Board of



1
2 Transport Commissioners, or by the staff of the
3 Board of Transport Commissioners, is not a
4 matter for suggestion by this proposal. The
5 Cost Based Rate Increase Formula assumes that
6 the cost increase data will be made available.

7 (e) In Table III, which shows the procedure
8 for computing the increase in railway rates
9 for each mileage block, the existing rate in
10 the first mileage block of 1-20 miles was
11 used as representative of the terminal costs
12 for 100 pounds of Class 100 freight. Since
13 terminal costs do not change with the length
14 of haul, the 62 cent figure was the assumed
15 terminal cost part of the Class 100 rate
16 for each mileage block. This was purely an
17 assumed figure. It should be emphasized that
18 the use of the Cost Based Rate Increase Formula
19 is not dependent in any way on the validity of
20 the assumed 62 cent terminal cost figure.

21 In short, whoever provides the information will likewise
22 give the terminal cost figure and these terminal costs
23 will be altered in accordance with the increase in the
24 cost not related to the length of haul each time the
25 carriers come forward and ask for an increase in rates
26 in accordance with their increase in costs.

27 But it is recognized that the nature of the
28 percentage increase in rates for each mileage
29 block is affected by the figure used as
30 representative of terminal costs. The



1
2 62 cent terminal cost figure was merely
3 assumed. The subtraction of 62 cents
4 from the Class 100 Rate for each mileage
5 block leaves that part of the Class 100 Rate
6 which may be regarded as Costs Related to
7 Length of Haul.

8 I think at this point I should stop and if you will turn
9 to Table III we will see how this was actually computed.
10 We find on Table III, column 1, the mileage blocks
11 1-20, 21-25, 26-30 miles, and so forth.

12 THE CHAIRMAN: All of which are regular?

13 THE WITNESS: All of which are regular and
14 those are the Canadian mileage blocks as given to us
15 as are in effect at the present time. We have adjacent
16 to this in column 2 the rates for each of these mileage
17 blocks for Class 100 Rates at the present time. Now,
18 I assume for the number that the Class 100 Rate for the
19 first mileage block would be essentially the terminal
20 cost -- that was an assumed figure. If this is in any
21 way incorrect then I suggest that figure be altered. In
22 accordance with the determination columns 3 and 4 are
23 going to segregate in the Class 100 Rate that part which
24 is terminal and that part which is line haul, and if it
25 is assumed that the 62-cent figure is the terminal cost
26 then we simply subtract 62 cents from each of the rates,
27 Class 100 Rates, for each of the mileage blocks to
28 determine the line haul part of that rate.
29
30



1
2 We find them, for example, in the 21 to 25 mileage block,
3 if 62¢ of 67¢ are terminal costs, then in column 3 we put
4 62¢.

5 In column 4 the difference between 62¢ and 67¢
6 (5¢) would be the line haul costs.

7 I have assumed here purely for purposes of
8 illustration that terminal costs increased by 10% and that
9 line haul costs increased by 5%. These figures would be
10 given by the rail carriers to the Board of Transport
11 Commissioners.

12 Q. Well, we have three basic assumptions:
13 One, that the terminal costs are 62¢; the amount of
14 increase in costs not related to length of haul is 10%,
15 and the amount of increase in cost related to length of
16 haul is 5%?

17 A. That is correct.

18 THE CHAIRMAN: And you are just separating the
19 sheep from the goats?

20 THE WITNESS: Exactly. Then we multiply the
21 10% times 62¢ and the 5% increase in line haul costs times
22 the 5¢ of the 67¢ figure, and we arrive at the increase
23 for the line haul and for the terminal areas and add them
24 on to the old rate to arrive at a new rate in column 7

25
26 THE CHAIRMAN: Where do you get those percentages?

27 THE WITNESS: They are provided by the carriers
28 when they come forward asking increases in rates because
29 of increases in costs. Instead of saying, "generally
30 speaking, we need a 10% increase", they are going to say,



1
2 "we have two facts to present to you: our terminal costs
3 have increased by so much percent and our line haul costs
4 by so much percent." With these figures we can then
5 determine what the new figure would be.

6 THE CHAIRMAN: You took that from the railways?

7 THE WITNESS: Or the Board of Transport
8 Commissioners, whatever the case may be.

9 MR. FRAWLEY: The witness certainly did not take
10 anything from the railways, not having been offered
11 anything from the railways, but he made the assumption.

12 THE CHAIRMAN: I meant from their evidence.

13 THE WITNESS: Yes, the percentages which are
14 applied times the terminal and line haul costs are
15 presented and not assumed in the formula itself. They
16 are given, measured costs.

17 MR. FRAWLEY: Let us clear this up in view of
18 the fact I have heard a "what?" from the counsel table.
19 I want to make it clear the witness did not take the
20 10% and the 5% from any C.P.R. evidence to date. He
21 assumed it. He said, when they next go before the Board,
22 and each time they do go before the Board, they will have
23 their application for an increase in rates based upon the
24 difference in the cost increase between terminal and line
25 haul.

26 COMMISSIONER ANSCOMB: He could assume one was
27 12 and the other 7?

28 THE WITNESS: Exactly. It could be any series
29 of figures.

30 MR. SINCLAIR: Or that both were the same?



1
2 THE WITNESS: Or that both were the same, yes.
3 We therefore arrive at a new class 100 figure.

4 MR. FRAWLEY: Q. Just so the record will not
5 be cluttered up by these interchanges from Mr. Sinclair,
6 your basic assumption, based on the United States data,
7 is that there is a difference in the rate of increase
8 between terminal costs and line haul costs?

9 A. During these years of 1950 to 1958 there
10 was a very distinct difference.

11 Q. So, it could not be 10% and 10%?

12 A. Not in the United States between 1950 and
13 1958.

14 Q. But you say whatever the fact discloses
15 as to the increase in line haul and terminal, that is
16 the data the railways will be expected to present to the
17 Board?

18 A. Yes. Now, the final step: we have brought
19 in column 7 a new class 100 rate. The difference between
20 the new class 100 rate and the old class 100 rate divided
21 by the old class 100 rate gives the percentage of total
22 increase in that mileage block. That is the percentage
23 of change.

24 COMMISSIONER ANSCOMB: Which, in this case comes
25 to 963.

26 THE WITNESS: Yes.

27 MR. FRAWLEY: Q. Before you leave that, I
28 suggest you fill in the blank at the top of column 7,
29 and it might be helpful if the Commissioners would pencil
30 in a figure: what would the figure be?



1
2 A. We have added 10% application to the 62¢
3 rate which would give us 6¢, as we have indicated in
4 column 5, and when that 6¢ is added to 62¢ it would make
5 it 68¢ in column 7 instead of a blank there.

6 Q. Would you now proceed, please?

7 A.

8 (f) The cost computed rate increase formula
9 simply takes the per cent of change in (1)
10 costs related to length of haul, (2) costs
11 not related to length of haul, and applies
12 these given percentages times their
13 respective parts of each class 100 rate
14 for varying mileages to arrive at an over-
15 all percentage rate change for each mileage
16 block as shown in Table III. The new class
17 100 rate reflects the increase in these
18 two costs.

19 (g) The new class 100 rate is determined by
20 applying the percentage change in costs
21 related and not related to length of haul
22 to their respective portions of existing
23 class 100 rates. The addition of the
24 change in costs related and not related to
25 length of haul to the existing class 100
26 rate for that mileage block provides the
27 new class 100 rate. The difference be-
28 tween the new class 100 rate and the
29 existing class 100 rate, divided by the
30 old class 100 rate gives the over-all



percent increase in rates applicable for that length of haul. For example, if the determined new class 100 rate were \$1.07 per hundred-weight, and the existing class 100 rate were \$1.00, the percent of increase would be 7 percent. All rates subject to the cost based rate increase formula for which the \$1.07 rate for the class 100 rate applied would take a 7 percent increase in the existing rate.

What we do here is use the class 100 rate to arrive at the percent of change in the new rate, and then apply this determined percent times whatever the rate may be on the commodity that is actually moving.

If the new class 100 rate were \$1.07 per hundred-weight, but the rate on the specific shipment contemplated were \$.90 for this lower class commodity, the increase in the existing rate would be 7 percent of \$.90, or about \$.06.

3. How to Apply the Cost Based Rate Increase Formula:

(a) Table III, page 27, has been constructed to illustrate how an over-all percentage rate change could be computed through the use of the cost based rate increase formula under the following assumptions:

- (1) That the class 100 mileage scale rates are currently effective between all points in Canada.
- (2) That the increased cost percentages are



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Little, dir.
(Frawley)

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5% and 10%, respectively, for costs related
and not related to length of haul.



(3) That the class 100 rate in the first mileage block (1-20 miles) is representative of the terminal cost share of class 100 rates for each mileage block.

(b) It will be noted that column 8 of Table III presents the per cent increase to be applied to existing class 100 rates in order to arrive at the new class 100 rate. Table IV provides the results of Table III by presenting the mileage blocks in column 1, the existing class 100 rates in column 2, and the percent of increase in column 3, to be applied to existing class 100 rates to arrive at a corrected new class 100 rate which reflects changes in costs.

We might take a glance at Table 4 before we go any further. That is on page 31. Now, actually Table 4 is nothing but a condensation of three of the columns of Table 3.

Q. The first thing to observe about Table 4 is that it is a double table. There are just three columns and the mileage increases. So it is just columns 1, 2 and 3 and columns 1, 2 and 3 again.

COMMISSIONER MANN: I wonder if Dr. Little could tell us whether in Table 4 the heading of column 1, and similarly the heading of column 4 should be "consecutive" instead of "competitive"?

THE WITNESS: That is correct. That is correct.

COMMISSIONER MANN: Thank you.



1
2 THE WITNESS: What we have done then is to
3 just take the mileage blocks, the existing class rate,
4 and the percent increase to be applied from table 3 and
5 made a new table out of it.

6 COMMISSIONER MANN: The word should be
7 "consecutive" in the heading, rather than "competitive"?

8 THE WITNESS: Yes, that is right.

9 MR. SINCLAIR: I am sorry, Mr. Frawley. Now,
10 in view of the fact that he has changed the first
11 column on 4, I am having a little difficulty with the
12 first column on 3. He has involved the basic point in
13 the mileage on the first column of table 3. I thought
14 the way the table was set up before was right.

15 THE WITNESS: This is exactly the same thing.
16 The mileage blocks are set up on table 4. Rather than
17 putting one to twenty and twenty-one to twenty-five, I
18 have simply put the longest mileage of that block.

19 MR. FRAWLEY: Q. Now, Dr. Little, I do not
20 want to quarrel with the correction you have made as
21 a result of Mr. Commissioner Mann's question. You used
22 the expression on page 31, as the caption for column
23 1 and column 4 "Competitive Mileage Blocks".

24 Now, just let us examine this. Looking at
25 the heading of the table: "Statement of Percent
26 Increased to be Applied to Class 100 rate according to
27 the Cost Computed Rate Increase Formula for Consecutive
28 Mileage Blocks. Each Mileage Block Encompasses all
29 Mileage from the Previous Mileage Block". I supposed
30 because of that you agreed with Commissioner Mann that



1
2 consecutive would be a more accurate word than
3 competition. Is that correct?

4 A. I did not understand him to be referring
5 to that. I think he meant consecutive leaving off at
6 850 and then going consecutively to 875. That was my
7 understanding.

8 COMMISSIONER MANN: That is right. Column 1
9 on Table 4 which is now headed "Competitive Mileage
10 Blocks". I asked you whether it should be headed
11 "Consecutive" instead of "Competitive". And, similarly,
12 in column 4 which is merely a continuation of column 1
13 for higher mileage blocks, again I wondered whether the
14 word "Competitive" should not have been "Consecutive"
15 to bring it in line with the word "Consecutive" in the
16 heading of the table as such.

17 THE WITNESS: Could I ask a question on that?
18 Why did you select the word "Consecutive"? Did you
19 find that this was inconsistent with table 3 in any
20 way?

21 COMMISSIONER MANN: No.

22 THE WITNESS: I was simply following the same
23 terminology but the term, as I see it, could be just as
24 accurately applied because they are consecutive mileage
25 blocks.

26 COMMISSIONER GOBEL: Are they competitive?

27 MR. SINCLAIR: My point, Mr. Chairman, is the
28 witness chose that word accurately because of the fact
29 that he has a base any point mileage on the basic
30 statistics from which this is drawn, and this is shown



1
2 in table 3. Once he has changed it, as he has changed
3 it now, from "Competitive Mileage Blocks", which means
4 something which we will explore later, he then has got
5 a difference operating between these two tables.

6 THE CHAIRMAN: Well, there is a difference in
7 semantics?

8 MR. SINCLAIR: No, no.

9 MR. FRAWLEY: Oh, no.

10 THE WITNESS: If you will notice on table 4,
11 we made the explanation that you are referring to here,
12 and at the head of table 4: "each mileage block
13 encompasses all mileage from the previous mileage
14 block".

15 Rather than giving a block of one to twenty
16 miles, if this is what you are referring to, I have
17 clarified that in the title, saying "Each mileage block
18 encompasses all mileage from the previous mileage block".

19 MR. FRAWLEY: I think that is clear, Dr. Little.
20 Would you just go back to the heading you gave column 1,
21 "Competitive Mileage Block". It is suggested to me
22 that there is a meaning to be given to that word
23 "competitive".

24 THE CHAIRMAN: That has a technical meaning?

25 MR. FRAWLEY: Q. Well, it has a meaning in
26 the Canadian freight rate structure. There might be
27 such a thing as a difference in actual miles between
28 Canadian National and Canadian Pacific, but what is
29 called the short line mileage, then, is used for
30 freight rate purposes. I think that is the thought in
your mind when you captioned column 1 "Competitive



1
2 Mileage Blocks"?

3 A. I think that is correct.

4 MR. SINCLAIR: That is exactly why I objected.

5 COMMISSIONER GOBEIL: Otherwise, the table does
6 not make sense.

7 THE WITNESS: This was terminology taken
8 directly from the tariffs.

9 MR. FRAWLEY: Does that clear it up,
10 Commissioner Mann?

11 COMMISSIONER MANN: Yes. Thank you very much.

12 MR. FRAWLEY: Q. Now, Dr. Little, continuing
13 with your submission, on page 13.

14 (c) To illustrate the mechanics of determining the
15 percent of increase in the existing rates through
16 the application of the cost based rate increase
17 formula, a hypothetical shipment may be used.

18 Under the assumption that the terminal costs
19 increase by 10% and line haul costs increase by 5%
20 which is the assumption I have made in Table 3.

21 The application of the formula resulted in the
22 determination of a scale of percentage rate
23 increase for varying distances as indicated in
24 Table IV. The steps for using the computed scale
25 of percentage increases would be as follows:

26 (1) Determine the class 100 rate between the
27 points of the proposed movement. Suppose,
28 for example, it was \$2.71.

29 I would suggest at this point that we maybe
30 keep our finger in Table 4 on page 31 and go through



1
2 this step. I repeat: Suppose, for example, it was
3 \$2.71.

4 (2) Look down column 2 of Table IV, (page 31)
5 until you find \$2.71 in the current class
6 100 rate column. It will be noted the
7 percent increase to be applied to the
8 contemplated shipment adjacent to \$2.71
9 in column 3 of Table IV is 6 percent.

10 THE CHAIRMAN: The formula is dependent on
11 the assumption?

12 THE WITNESS: Yes.

13 MR. FRAWLEY: Q. The working out of the
14 formula is dependent upon the assumption?

15 A. Yes. I was wondering what assumption you
16 meant?

17 THE CHAIRMAN: Five and ten.

18 THE WITNESS: That is correct, exactly. It
19 will be noted that the percent increase to be applied
20 to the contemplated shipment which is \$2.71 in column
21 3 table 4 is 6%. If you just run your finger down
22 column 2 on table 4 until you come to \$2.71 beside it we
23 see 6%.

24 (3) Apply a 6 percent increase to the current rate
25 applicable to the class or commodity rate of the
26 actual shipment as indicated in existing
27 tariffs. Do not apply 6 percent to the class
28 100 rate unless, of course, the product is
29 rated class 100. If the actual rate on the
30 given shipment between the points of the



1
2 movement happened to be \$2.50, for example,
3 apply a 6 percent increase to \$2.50. This
4 would provide a new rate of \$2.65.

5 (d) From the Board of Transport Commissioners,
6 the Dominion Bureau of Statistics, the
7 railways and from this Commission statistics
8 were sought which would indicate the percent
9 of increase in costs related and not related
10 to length of haul for rail freight movements
11 in Canada. Since these statistics were not
12 provided, it is necessary to assume
13 hypothetical increases in these two classes
14 of costs to illustrate the application of
15 the formula. Table III assumes a hypothetical
16 increase of 10 percent in costs not related
17 to length of haul and 5 percent for costs
18 related to length of haul.

19 I hope you will pardon the repetition of this
20 so frequently.

21 THE CHAIRMAN: This has never been presented
22 to the ICC?

23 THE WITNESS: This has never been presented
24 to the ICC.

25 MR. FRAWLEY: This has been the season on
26 the horizontal percentage increase, and this is our
27 buck shot.

28 THE CHAIRMAN: You are pioneering it?

29 MR. FRAWLEY: Yes, we will accept the
30 honoured distinction that we are endeavouring to find



1
2 something, at least, that will serve in lieu.

3 THE CHAIRMAN: Well, you are to be commended
4 for that.

5 MR. FRAWLEY: Q. From now on, the balance
6 of your brief is devoted to what you call a CRITIQUE
7 OF THE COST BASED RATE INCREASE FORMULA. It will speak
8 for itself as it develops, but perhaps, for clarity's
9 sake, I might say that from now on you enter into a
10 critical discussion, under six or seven heads, of your
11 formula.

12 A. Yes, I have selected here certain areas
13 that I think needed further clarification.

14 MR. FRAWLEY: Q. Will you continue, please,
15 Dr. Little?

16 A.

17 CRITIQUE OF THE COST BASED RATE INCREASE FORMULA

18 A statement of some of the features of the
19 cost based rate increase formula would be helpful for
20 the purpose of clarifying its economic justification
21 and practical application. It must be remembered that
22 this formula for rail rate increases will be applied
23 only on those rates formerly increased by the flat
24 percentage increase method. There are two essential
25 assumptions inherent in the formula. One assumption
26 is that if rate increases are granted for the purpose
27 of assessing shippers for increased costs, the change
28 in the rates must accurately reflect the increase in
29 the costs. The other assumption is that costs related
30 and not related to length of haul do not always increase



1
2 in step, and if they do not, a horizontal increase in
3 rates for all shippers will result in an overcharge
4 to either the long-or-short-distance shipper and an
5 undercharge to the other. The assumed terminal costs
6 and measured increases in costs related and not related
7 to length of haul used in Table III are assumed for the
8 purpose of illustration. They are not fundamental to
9 the theory of the formula. The following statements and
10 their elaboration are intended to further clarify certain
11 aspects of the formula which merit further analysis.

12 MR. FRAWLEY: Before you start there, I am
13 reminded of a statement made to me a few moments ago,
14 Mr. Chairman, and I certainly want to apologize. My
15 friend, Mr. Mauro, is not here but Mr. Stechishin is
16 here, and I want to say that Mr. Stechishin and Mr.
17 Mauro also proposed an alternative to horizontal
18 percentage increase. I am sure that if my friend Mr.
19 Mauro was here that I would not have escaped some
20 comment. Perhaps my friend Mr. Stechishin noticed and
21 was too modest to say anything. Certainly the
22 province of Manitoba also suggested something, and I
23 would not want to say I was the only one who was
24 proposing it.

25 THE CHAIRMAN: Well, we will give you all the
26 credit.

- 27 1. The cost Computed Rate Increase Formula does
28 not compute the percent of increase in costs
29 related and not related to length of haul.

30 And, it does not apply an arbitrary weighting



1
2 to determine the percent of each of these
3 costs at varying distances.

4 All changes in costs related and not related
5 to length of haul used in computing the overall increase
6 or decrease in rates at varying distances are determined
7 by the railways and/or the Board of Transport
8 Commissioners and are not determined by the formula.

9 Given the current class 100 rate on a movement
10 for a given number of miles, and given the fixed amount
11 of terminal costs for movement of all distances of the
12 same rating class, the amount of costs related and not
13 related to length of haul are mathematically computed
14 -- not arbitrarily set -- for each mileage block. The
15 proportion of each of these two forms of costs in each
16 mileage block is measured and not arbitrarily set.

17 2. The use of the class 100 rate for the first
18 mileage block of 1-20 miles as the predetermined
19 costs not related to length of haul is purely
20 an assumption. It is not known whether the
21 rate in the first mileage block is equal to,
22 less than, or greater than terminal costs for
23 100 pounds of class 100 freight.

24 The figure used to represent terminal costs
25 for class 100 freight should be accurately determined
26 since it will directly affect the percentages of rate
27 increases for all distances of shipment. The change
28 of the terminal cost figure which would be necessary
29 for each change in the uniform scale of mileage class
30 rates through the use of the cost based rate increase



1
2 formula would not be difficult to compute. All
3 applications by the railways for increased rates based
4 on increased costs must be supported by a computation
5 of percentage increases in costs related and not
6 related to length of haul. The computed percent of
7 increase in costs not related to length of haul will be
8 multiplied times the measured terminal cost for 100
9 pounds of class 100 freight in the uniform scale of
10 mileage class rates to be increased.

11 What I am saying here is when you have computed
12 what the terminal cost figure is, this terminal cost
13 figure must likewise be altered each time that you change
14 the scale and it will be changed in accordance with the
15 measured increased in costs not related to length of
16 haul.

17 This will provide a correct new terminal cost
18 for 100 pounds of class 100 freight to be used in
19 computing the percent of rate increases for each mileage
20 block.

21 3. There is good reason for believing that the
22 existing class 100 rates have become incorrectly
23 adjusted so as to provide a scale of rates
24 unduly favourable to short-distance shippers
25 and unduly high for long-distance shippers.
26 This is based upon the conviction that the
27 flat percentage method of increasing rates has
28 appreciably altered the relationship of rates
29 to distance which formerly existed.
30



1
2 It is assumed that the Uniform Scale of Mileage
3 Class Rates which was made effective March 1, 1955, after
4 much consideration and review for purposes of rate
5 justice and equity by the Board of Transport Com-
6 missioners, did provide a scale of mileage rates
7 which was fair and equitable. It is assumed that this
8 corrected Uniform Scale of Mileage Class Rates made
9 adjustments for the inequities which existed prior to
10 its adoption. If Costs Related to Length of Haul did
11 not increase exactly the same as Costs Unrelated to Length
12 of Haul since that date, (and it would be a great coin-
13 cidence if they did) it may be assumed that the flat
14 percentage method of rate increases since that date
15 has altered the relationship of rates to distance
16 prescribed in the March 1, 1955, scale of rates.

17 Q. As you read it, you did not intend to
18 leave out the words "and it would be a great coin-
19 cidence if they did" which are in parenthesis?

20 A. I seem to be going rather rapidly. No,
21 I did not intend to leave them out.

22 THE CHAIRMAN: You leave those in?

23 THE WITNESS: I leave those in.

24 MR. SINCLAIR: The arrangement was that he
25 leaves everything in unless he says to take it out.

26 MR. FRAWLEY: All right, I was merely making
27 that remark for your benefit.

28 MR. SINCLAIR: I am under the rule, I under-
29 stand.

30 THE WITNESS: If Costs Related to Length of



1
2 Haul have increased by a lesser percentage than Costs
3 Not Related to Length of Haul since March 1, 1955, the
4 flat percentage increases have resulted in unjustifiably
5 high rates to the long-distance shippers. Alternately,
6 short-distance shippers have benefitted by unjustifiably
7 low rates.

8 If terminal costs have increased more than line-
9 haul costs since March 1, 1955, the short haul shipper
10 has benefitted through the application of horizontal
11 rate increases. At the same time a penalty from the
12 maladjustment has been suffered by the long haul shipper.

13 I would like at this time to make it clear
14 that this formula was not developed for the purpose of
15 giving any form of relief to any shipper. It was
16 developed for the sole purpose of correcting the horizon-
17 tal percentage method of rate increase.

18 It will be observed from Table III that under
19 the proposed formula the 3300-mile shipper would have his
20 rates increased by 5 per cent, and the 20-mile shipper
21 would have his rates increased 10 per cent. The majority
22 of the difference of 5 per cent that is between the
23 10 and 5 would be applied on shipments under 250 miles in
24 distance. According to these calculations, there is
25 very little difference in the relationship between the
26 per cent Costs Not Related to Length of Haul and total
27 costs for shipments ranging from 250 miles to 3300
28 miles.

29 MR. FRAWLEY: Q. If you look at page 31,
30 I would like the Commissioners to see just what you mean.



1
2 A. Yes. You will notice, for instance,
3 at 250 miles we have a 7 per cent increase and that is
4 the breaking point. At 275 miles there is only a 6
5 per cent increase and there is only a 5 per cent increase
6 when you go all the way up to 3300 miles -- there is
7 practically no change.

8 Q. The 6 per cent runs from 275 miles to ---

9 A. To 1175.

10 Q. 1175 miles, and the 5 per cent runs from
11 1200 miles right out to the end of the scale at 3300
12 miles?

13 A. That is correct.

14 The adoption of 62 cents as being repre-
15 sentative of terminal costs is primarily responsible
16 for the fact that most of the reduction from 10 per
17 cent to 5 per cent increase in rates as a measure of
18 increases in costs occurs in the first 250 miles of
19 haul. Had \$1.00 been accepted as the terminal cost
20 share of the rate per 100 pounds for Class 100 freight,
21 a 10 per cent increase would be applicable on freight
22 moving 55 miles or less, for example, and freight
23 moving 250 miles would be assessed an increase of 7
24 per cent instead of 6 per cent. However, the nature of
25 the application of the Cost Based Rate Increase Formula
26 would not be altered by the costs assumed to be repre-
27 sentative of terminal costs for 100 pounds of Class 100
28 freight. The basic underlying assumption of the
29 formula is only that the terminal cost figures used
30 should be the true terminal costs for 100 pounds of



Class 100 freight.

4. Horizontal rate increases do not reflect accurately either increases in costs or competitive circumstances. Changes in rates based on changes in costs should be applied through the Cost Based Rate Increase Formula. Competitive rates, and changes in classification, rather than a flat percentage increase should be used to meet competitive circumstances.

The Cost Based Rate Increase Formula assures that rate changes will reflect cost changes. It does not assure that rate changes will reflect possible changes in competitive situations. It cannot prevent a situation in which rates cannot increase as much as costs have increased because competitive circumstances forbid it. But, the horizontal method of rate increase does not assure that rate increases will reflect cost increases or that rate changes will reflect competitive circumstances. Since the horizontal method is based on revenue needs, it does not reflect specific cost increases, and under some circumstances it may be less reflective of competitive situations than would be the Cost Based Rate Increase Formula. The reasons the horizontal rate increase method does not reflect competitive circumstances are:

a. The horizontal rate increase method is a rigid, fixed system of changing rates, just as the Cost Based Rate Increase Formula is. It



1
2 could not be primarily based on overall
3 revenue needs (as it is), applied on an
4 overall flat basis, and also reflect
5 competitive circumstances.

6 b. Under circumstances in which accelerated inno-
7 vations in terminal handling procedures offset
8 the increase in costs more than do innovations
9 in the line haul area, which was the reverse
10 of what we found to be true between 1950 and
11 1958, rate changes which reflect cost
12 changes should be relatively less for short haul
13 than long haul. Under a flat percentage rate
14 increase method, the extent which short haul
15 rates should be relatively less than long haul
16 rates would not be achieved. Under these
17 circumstances, the horizontal rate increase
18 method would be less reflective of competitive
19 circumstances than would the Cost Based Rate
20 Increase Formula -- assuming competition is
21 greatest in the short haul. Of course, under
22 other circumstances where terminal costs
23 increased more rapidly than line haul costs,
24 the flat percentage rate increase method would
25 be more reflective than the Cost Based Rate
26 Increase Formula of competitive circumstances --

27 Q. Now, just taking the last four lines I
28 think it might clarify it to say "the flat percentage
29 rate increase method would be more reflective of com-
30 petitive circumstances than the Cost Based Rate Increase



1
2 Formula though its rigidity would not permit it to
3 directly reflect competitive circumstances.

4 A. It does not change the meaning.

5 Q. No, I am only talk ng about the language.
6 I thought it might clarify it a bit.

7
8 A. Authorized rate increases applied through a
9 general formula can hardly reflect with accuracy both
10 increases in costs and competitive circumstances.
11 There are several reasons why changes in rates subject
12 to authorized rate increases should reflect changes
13 in costs rather than emphasize changes in competition:

- 14 a. Most applications for increases in railway rates
15 have been based on increases in costs.
16 b. Adjustments in rates necessitated by
17 carrier competition should be accomplished
18 primarily through competitive rates or
19 changes in classification.

20 I am saying here, if you find the situation in which
21 for competitive reasons the cost based rate increase
22 formula seems inapplicable then I suggest you change the
23 classification or handle it as a competitive rate.

- 24 5. If changes in Costs Related and Unrelated
25 to Length of Haul have been accurately
26 measured, the resulting increases in rates
27 applied to each mileage block will provide
28 sufficient revenue to meet the increased
29 costs -- given no change in the volume of
30 traffic.



1
2 The assumption of no change in volume of traffic
3 responding to the increased rates under the Cost Based
4 Rate Increase Formula is the same assumption adopted
5 when horizontal rate increases are instituted to
6 provide a comparable percentage increase in revenue --
7 given no change in the volume of traffic. No rate in-
8 crease procedure can be devised which will inevitably
9 assure a percentage increase in gross revenue comparable
10 to the increase in rates. It may be necessary to
11 adjust upward the increase in rates above measured
12 increases in costs for each mileage block under the
13 application of the Cost Based Rate Increase Formula to
14 assure sufficient revenue to compensate for changes in
15 volumes of traffic. But the adjusted increase in
16 rates for each mileage block can be made to reflect the
17 measured percentage increase in Costs Related and Un-
18 related to Length of Haul for each mileage block. The
19 use of the Cost Based Rate Increase Formula in this
20 manner achieves the objective of retaining the com-
21 petitive relationship of rates to cost by increasing
22 rates in accordance with increased costs for each
23 mileage block of the Uniform Scale of Mileage Class Rates.
24 What I am saying is, if it seems to apply a measured
25 increase in cost for this formula and you arrive at
26 the given percentages of increased cost for each of
27 the mileage blocks and it is believed that the net
28 effect will be to reduce the volume of traffic just as
29 horizontal increases have decreased likewise the volume
30 of traffic, then, just as in the horizontal method of



1
2 increasing you^{it} approximate the percent of increase which
3 you will need to add on to the flat percentage. Here,
4 too, you will simply add on to the percentage figures
5 in their relative proportion percentages to give you
6 reason to believe that you will have sufficient revenue.

7 For example, if measured increases in costs
8 Related and Unrelated to Length of Haul were 5 per cent
9 and 10 per cent, respectively, but it was believed
10 volume of traffic might be reduced by this increase, the
11 revenue requirements of the railways could be met by
12 increasing the measured costs related to length of haul
13 by 6 per cent and the measured costs unrelated to
14 length of haul by 12 per cent. This would permit a
15 possibility for sufficient revenue to meet needs despite
16 a decrease in volume of traffic.

17 THE CHAIRMAN: It would be flexible?

18 THE WITNESS: Yes, it would be flexible.

19 COMMISSIONER ANXCUMB: It might also drive
20 more traffic away.

21 THE WITNESS: That is correct.

22 6. The application of the percentage rate in-
23 crease for Class 100 Rates to all rates
24 subject to authorized rate increases under
25 the Cost Based Rate Increase Formula is
26 economically correct.

27 This procedure merely assumes that the
28 per cent of terminal costs to line-haul costs for each
29 mileage block is the same whether the shipment is classi-
30 fied as Class 100 or any other class of freight. Since



1
2 Class 100 rates can be obtained between all points in
3 Canada, the use of the Class 100 Rate as a basis for
4 measuring what the per cent of terminal and line-haul
5 costs are of the Class 100 Rate for each mileage block
6 is proper and expedient.

7 7. If the Cost Based Rate Increase Formula
8 resulted in raising short-distance rates
9 above what the traffic would bear would these
10 new rates not be theoretically correct but
11 practically unworkable?

12 The Cost Based Rate Increase Formula is
13 applicable only to rates which normally would be subject
14 to horizontal percentage increases. It is not nor-
15 mally applicable to competitive rates.

16 THE CHAIRMAN: I think we will have a recess
17 now.

18
19 ----Short recess.

20 THE CHAIRMAN: Order, please.

21 MR. FRAWLEY: Q. Dr. Little, will you give
22 us your conclusions?

23 A. Yes.

24 Increases in railway costs necessitate
25 increases in railway rates. The railways of Canada,
26 operating under a competitive price economy, must re-
27 ceive sufficient revenues to cover their full costs of
28 operation. If increases in railway costs are not
29 accompanied by increases in rates through a cost
30 allocation procedure which accurately reflects the



1
2 incidence of increased costs, a subsidy to one element
3 of the shipping public by another element is unavoidable.
4 For many years the Canadian and United States railways
5 have committed themselves to the procedure of applying
6 horizontal, flat rate increases for all authorized
7 general rate increases. From a cost responsibility view-
8 point, this could only be justified if costs for varying
9 shipping distances went up "in step".

10 Railway costs studies conducted by the
11 Interstate Commerce Commission of the United States
12 indicate that all railway costs have not increased by
13 the same percentage year by year. Between the years
14 1950 and 1958, Costs Related to the Length of Haul
15 increased less than half as rapidly as did Costs Not
16 Related to Length of Haul for both fully distributed and
17 out-of-pocket costs. The application of flat rate
18 increases during those years resulted in unduly large
19 rate increases for the long-distance shippers to the
20 benefit of the short-distance shippers. The continua-
21 tion of this practice over many years would have the
22 effect of appreciably altering the relationship of rates
23 to distance which had previously been in effect. The
24 accumulated effect of this allocation of railway costs
25 would have profound repercussions on the national trans-
26 portation system to which it applied. There is much
27 reason for believing that, over the long run, railway
28 Costs Related to Length of Haul have not increased
29 as much, percentagewise, as have Costs Unrelated to
30 Length of Haul. Innovations in the form of dieselization



1
2 and other "line-area" cost reducing procedures have
3 very materially offset inflationary cost increases.

4 I might emphasize that if you were to deter-
5 mine the increase in the cost of a pound of steel or an
6 hour of labour in the line-haul in the terminal areas
7 that you might well find the increase is the same in
8 both areas. This is a possibility. But yet, at the
9 same time, the total change in terminal cost and line-
10 haul cost may be very different because of the institu-
11 tion of innovations in the line-haul area which would
12 offset much of the increase in the factor cost in the
13 line-haul area, and would not be able to comparably
14 offset the increase in the costs in the terminal area.

15 If the inflationary increase in railway rates
16 were equal to the increase in prices which shippers re-
17 ceived for the product of their shipment, real trans-
18 portation costs would not have increased. But, if
19 the increase in railway rates, which resulted in no
20 increase in real rail transport costs did result in
21 assessing some shippers more than their proper share
22 of the increased rail costs, while other shippers
23 were assessed less than their proper share of the
24 increased costs, the accumulated effect of many increases
25 in rail rates would be to very appreciably alter the
26 competitive relationships between the long-distance
27 and the short-distance shippers. The cumulative ill-
28 effects on long-distance shippers and in favour of short-
29 distance shippers could result in considerable long-
30 run damage to the Canadian national production and



1
2 distribution systems through the application of hori-
3 zontal rate increases. Flat rate increases must
4 alter the relationship of shippers of varying dis-
5 tances if line-haul and terminal costs do not move up
6 "in step". It is extremely important that the
7 procedure for adjusting railway rates upward be suffi-
8 ciently flexible and accurate to assure that they reflect
9 actual changes in costs of movement. The flat per-
10 centage method of rate increases represents an extreme
11 example of a very inflexible method of rate adjustment.

12 The economic prosperity of the railway indus-
13 try is unalterably linked with its own success in pro-
14 viding cheap long-distance transportation. It is
15 to the long-run benefit of the railway industry that
16 the Cost Based Rate Increase Formula, or something
17 akin to its procedure and objectives, be instituted
18 to replace the outmoded flat increase method of ad-
19 justing rates upward. It would be a great mistake
20 to continue to apply flat percentage rate increases
21 without being aware of the full implications of its
22 capacity to change the existing competitive relation-
23 ships of shippers of varying distances. The trend
24 in railway rate making is more and more in the direc-
25 tion of setting rates to reflect costs -- as con-
26 trasted to setting rates in accordance with what the
27 traffic will bear. If this is the direction of sound
28 rate making, the Cost Based Rate Increase Formula will
29 provide a considerably more accurate method of adjust-
30 ing rates to the precise incidence of changes in costs.



It may be concluded by way of summary that:

1. The most precise way in which to assure that the competitive relationship between shippers of varying distances will not be improperly altered through rate increases is to divide railway costs into the two categories of Costs Related and Not Related to Length of Haul, then make rate increases for varying distances reflect increases in these two forms of costs for those distances.
2. There is little doubt that Costs Related and Not Related to Length of Haul have not increased by equal percentages in the past, nor will they be likely to do so in the future; therefore, the application of horizontal rate increases inevitably result in unduly great increases in rates for some shippers, to the advantage of other shippers.
3. The Cost Based Rate Increase Formula provides a means of applying the per cent of increase in Costs Related to Length of Haul and those Costs Unrelated to Length of Haul to the existing rates for varying mileage blocks so as to determine a cost increase corrected new rate for each mileage block in the Uniform Scale of Mileage Class Rates.
4. The Formula is intended to show how to apply the predetermined Costs Related and Not Related to Length of Haul so as to establish



1
2 a new cost corrected Class 100 Rate for
3 each mileage block; it does not suggest the
4 procedure for determining these two classes
5 of costs.

6 5. One of the primary reasons horizontal rate
7 increases have been applied to date is that
8 they do not necessitate the issuance of new
9 tariffs with each authorized general increase
10 in rates. By determining the per cent of
11 cost increase for the Class 100 Rates in each
12 mileage block of the Uniform Scale of Mileage
13 Class Rates, and then applying the per cent
14 of rate increase of the Class 100 Rate of each
15 mileage block to all classes of shipments in
16 that mileage block, it is possible to apply
17 the Cost Based Rate Increase Formula without
18 the need of changing the tariffs. The per
19 cent of increase in Class 100 Rates for each
20 mileage block of the Uniform Mileage Scale
21 of Class Rates can be provided on a single
22 sheet of paper.

23 MR. FRAWLEY: Thank you very much. Will
24 you now answer to Mr. Cumming?

TABLE III

Procedure Used In Applying a Ten Per Cent Increase in Terminal Costs
and a Five Per Cent Increase in Line-Haul Costs Times Current Class 100 Rates
to Determine a New Class 100 Rate and the Percentage Rate Change at Each Mileage Block

Competing Miles (also Basing Point)	Class 100 Rate	Amount of Costs Not Related to Length of Haul	Amount of Costs Related to Length of Haul in Class 100 Rates	Amount of Increase in Costs Not Related To Length of Haul at 10% Increase	Amount of Increase in Costs Related to Length of Haul at 5% Increase	New Class 100 Rates	Per Cent of Increase on Class 100 Rates
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1-20	\$0.62	\$0.62	\$0.00	\$0.062	\$0.000	---	10.00
21-25	.67	.62	.05	.062	.0025	\$.73	9.63
26-30	.74	.62	.12	.062	.0060	.81	9.19
31-35	.79	.62	.17	.062	.0085	.86	8.92
36-40	.86	.62	.24	.062	.0120	.93	8.60
41-45	.91	.62	.29	.062	.0145	.99	8.41
46-50	.98	.62	.36	.062	.0180	1.06	8.16
51-55	1.03	.62	.41	.062	.0205	1.11	8.01
56-60	1.10	.62	.48	.062	.0240	1.19	7.82
61-70	1.16	.62	.54	.062	.0270	1.25	7.67
71-80	1.22	.62	.60	.062	.0300	1.31	7.54
81-90	1.29	.62	.67	.062	.0335	1.39	7.40
91-100	1.34	.62	.72	.062	.0360	1.44	7.31
101-125	1.46	.62	.84	.062	.0420	1.56	7.12
126-150	1.58	.62	.96	.062	.0480	1.69	6.96
151-175	1.71	.62	1.09	.062	.0545	1.83	6.81
176-200	1.84	.62	1.22	.062	.0610	1.96	6.69
201-225	1.94	.62	1.32	.062	.0660	2.07	6.60
226-250	2.05	.62	1.43	.062	.0715	2.18	6.51
251-275	2.16	.62	1.54	.062	.0770	2.30	6.44
276-300	2.27	.62	1.65	.062	.0825	2.41	6.37
301-325	2.38	.62	1.76	.062	.0880	2.53	6.30
326-350	2.49	.62	1.87	.062	.0935	2.65	6.25

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
351-375	2.60	.62	1.98	.062	.0990	2.76	6.19
376-400	2.71	.62	2.09	.062	.1045	2.88	6.14
401-425	2.82	.62	2.20	.062	.1100	2.99	6.10
426-450	2.93	.62	2.31	.062	.1155	3.11	6.06
451-475	3.04	.62	2.42	.062	.1210	3.22	6.02
476-500	3.15	.62	2.53	.062	.1265	3.34	5.98
501-525	3.26	.62	2.64	.062	.1320	3.45	5.95
526-550	3.37	.62	2.75	.062	.1375	3.57	5.92
551-575	3.48	.62	2.86	.062	.1430	3.69	5.89
576-600	3.59	.62	2.97	.062	.1485	3.80	5.86
601-625	3.70	.62	3.08	.062	.1540	3.92	5.84
626-650	3.81	.62	3.19	.062	.1595	4.03	5.81
651-675	3.92	.62	3.30	.062	.1650	4.15	5.79
676-700	4.03	.62	3.41	.062	.1705	4.26	5.77
701-725	4.14	.62	3.52	.062	.1760	4.38	5.75
726-750	4.25	.62	3.63	.062	.1815	4.49	5.73
751-775	4.36	.62	3.74	.062	.1870	4.61	5.71
776-800	4.47	.62	3.85	.062	.1925	4.72	5.69
801-825	4.58	.62	3.96	.062	.1980	4.84	5.68
826-850	4.69	.62	4.07	.062	.2035	4.96	5.66
851-875	4.80	.62	4.18	.062	.2090	5.07	5.65
876-900	4.91	.62	4.29	.062	.2145	5.19	5.63
901-925	5.02	.62	4.40	.062	.2200	5.30	5.62
926-950	5.13	.62	4.51	.062	.2255	5.42	5.60
951-975	5.24	.62	4.62	.062	.2310	5.53	5.59
976-1000	5.35	.62	4.73	.062	.2365	5.65	5.58
1001-1025	5.46	.62	4.84	.062	.2420	5.76	5.57
1026-1050	5.57	.62	4.95	.062	.2475	5.88	5.56
1051-1075	5.68	.62	5.06	.062	.2530	6.00	5.55
1076-1100	5.79	.62	5.17	.062	.2585	6.12	5.54
1101-1125	5.90	.62	5.28	.062	.2640	6.23	5.53
1126-1150	6.01	.62	5.39	.062	.2695	6.35	5.52
1151-1175	6.12	.62	5.50	.062	.2750	6.46	5.51
1176-1200	6.23	.62	5.61	.062	.2805	6.57	5.50
1201-1225	6.34	.62	5.72	.062	.2860	6.69	5.49
1226-1250	6.45	.62	5.83	.062	.2915	6.80	5.48
1251-1275	6.56	.62	5.94	.062	.2970	6.92	5.47

(Table III continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1276-1300	6.67	.62	6.05	.062	.3025	7.03	5.47
1301-1325	6.78	.62	6.16	.062	.3080	7.15	5.46
1326-1350	6.89	.62	6.27	.062	.3135	7.27	5.45
1351-1375	7.00	.62	6.38	.062	.3190	7.38	5.44
1376-1400	7.11	.62	6.49	.062	.3245	7.50	5.44
1401-1425	7.22	.62	6.60	.062	.3300	7.61	5.43
1426-1450	7.33	.62	6.71	.062	.3355	7.73	5.42
1451-1475	7.44	.62	6.82	.062	.3410	7.84	5.42
1476-1500	7.55	.62	6.93	.062	.3465	7.96	5.41
1501-1550	7.77	.62	7.15	.062	.3575	8.19	5.40
1551-1600	7.99	.62	7.37	.062	.3685	8.43	5.39
1601-1650	8.21	.62	7.59	.062	.3795	8.65	5.38
1651-1700	8.43	.62	7.81	.062	.3905	8.88	5.37
1701-1750	8.65	.62	8.03	.062	.4015	9.11	5.36
1751-1800	8.87	.62	8.25	.062	.4125	9.35	5.35
1801-1850	9.09	.62	8.47	.062	.4235	9.58	5.34
1851-1900	9.31	.62	8.69	.062	.4345	9.81	5.33
1901-1950	9.53	.62	8.91	.062	.4455	10.04	5.33
1951-2000	9.75	.62	9.13	.062	.4565	10.27	5.32
2001-2050	9.94	.62	9.32	.062	.4660	10.47	5.31
2051-2100	10.13	.62	9.51	.062	.4755	10.67	5.31
2101-2150	10.33	.62	9.71	.062	.4855	10.88	5.30
2151-2200	10.53	.62	9.91	.062	.4955	11.09	5.29
2201-2250	10.73	.62	10.11	.062	.5055	11.30	5.29
2251-2300	10.91	.62	10.29	.062	.5148	11.49	5.28
2301-2350	11.11	.62	10.49	.062	.5245	11.70	5.28
2351-2400	11.31	.62	10.69	.062	.5345	11.91	5.27
2401-2450	11.51	.62	10.89	.062	.5445	12.12	5.27
2451-2500	11.69	.62	11.07	.062	.5535	12.31	5.27
2501-2550	11.89	.62	11.27	.062	.5635	12.52	5.26
2551-2600	12.09	.62	11.47	.062	.5735	12.73	5.26
2601-2650	12.25	.62	11.63	.062	.5815	12.89	5.25
2651-2700	12.43	.62	11.81	.062	.5905	13.08	5.25
2701-2750	12.61	.62	11.99	.062	.5995	13.27	5.25
2751-2800	12.77	.62	12.15	.062	.6075	13.44	5.24
2801-2850	12.95	.62	12.33	.062	.6165	13.63	5.24
2851-2900	13.11	.62	12.49	.062	.6245	13.80	5.24

(Table III continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2901-2950	13.29	.62	12.67	.062	.6335	13.99	5.23
2951-3000	13.45	.62	12.83	.062	.6415	14.15	5.23
3001-3050	13.63	.62	13.01	.062	.6505	14.34	5.23
3051-3100	13.79	.62	13.17	.062	.6585	14.51	5.23
3101-3150	13.97	.62	13.35	.062	.6675	14.70	5.22
3151-3200	14.14	.62	13.52	.062	.6760	14.88	5.22
3201-3250	14.31	.62	13.69	.062	.6845	15.06	5.22
3251-3300	14.48	.62	13.86	.062	.6930	15.24	5.21

TABLE IV

Statement of Per Cent Increase to be Applied to Current Class 100 Rate According To The Cost Computed Rate Increase Formula For Consecutive Mileage Blocks. Each Mileage Block Encompasses All Mileage From the Previous Mileage Block

Competitive Mileage Blocks	Current Class 100 Rate	Per Cent Increase to be Applied	Competitive Mileage Blocks	Current Class 100 Rate	Per Cent Increase to be Applied
20	0.62	10%	875	\$4.80	6%
25	.67	10	900	4.91	6
30	.74	9	925	5.02	6
35	.79	9	950	5.13	6
40	.86	9	975	5.24	6
45	.91	8	1000	5.35	6
50	.98	8	1025	5.46	6
55	1.03	8	1050	5.57	6
60	1.10	8	1075	5.68	6
70	1.16	8	1100	5.79	6
80	1.22	8	1125	5.90	6
90	1.29	7	1150	6.01	6
100	1.34	7	1175	6.12	6
125	1.46	7	1200	6.23	5
150	1.58	7	1225	6.34	5
175	1.71	7	1250	6.45	5
200	1.84	7	1275	6.56	5
225	1.94	7	1300	6.67	5
250	2.05	7	1325	6.78	5
275	2.16	6	1350	6.89	5
300	2.27	6	1375	7.00	5
325	2.38	6	1400	7.11	5
350	2.49	6	1425	7.22	5
375	2.60	6	1450	7.33	5
400	2.71	6	1475	7.44	5
425	2.82	6	1500	7.55	5
450	2.93	6	1550	7.77	5
475	3.04	6	1600	7.99	5
500	3.15	6	1650	8.21	5
525	3.26	6	1700	8.43	5
550	3.37	6	1750	8.65	5
575	3.48	6	1800	8.87	5
600	3.59	6	1850	9.09	5
625	3.70	6	1900	9.31	5
650	3.81	6	1950	9.53	5
675	3.92	6	2000	9.75	5
700	4.03	6	2050	9.94	5
725	4.14	6	2100	10.13	5
750	4.25	6	2150	10.33	5
775	4.36	6	2200	10.53	5
800	4.47	6	2250	10.73	5
825	4.58	6	2300	10.91	5
850	4.69	6	2350	11.11	5

Competitive Mileage Blocks	Current Class 100 Rate	Per Cent Increase to be Applied
2400	\$ 11.31	5%
2450	11.51	5
2500	11.69	5
2550	11.89	5
2600	12.09	5
2650	12.25	5
2700	12.43	5
2750	12.61	5
2800	12.77	5
2850	12.95	5
2900	13.11	5
2950	13.29	5
3000	13.45	5
3050	13.63	5
3100	13.79	5
3150	13.97	5
3200	14.14	5
3250	14.31	5
3300	14.48	5



CROSS-EXAMINATION BY MR. CUMMING:

Q. Dr. Little, as I understand the situation, as you have explained here, the whole basis is that rate increases should be applied so as to have those rate increases properly reflect the incidence of cost increases in the terminal and line haul areas?

A. That is right.

Q. That being the case, and the whole scheme being designed to ensure that rate increases reflect cost, what reason is there in principle for not saying that the rate structure in its entirety should reflect cost?

A. There is an implication in your statement that the whole rate scale should be altered.

Q. Maybe it should or maybe it should not. What I want to understand from you is this: you say that rate increases should reflect cost: Why then, I ask you, should not the same principle apply throughout the rate structure and the whole of it reflect cost?

A. I start with the assumption that the Board of Transport Commissioners upon giving reflection to all factors and circumstances, and knowing their country well and knowing its needs in the competitive situation of its rail carriers, have established a scale of rates which is equitable and proper and correct, and I do not want to offer a second judgment on this. I am directing my attention specifically only to changing this correct scale of rates so as it properly reflects changes in cost.



1
2 Q. I appreciate that, and I appreciate that
3 you are not criticizing the uniform mileage scale as it
4 was established in 1955, and that your proposal is
5 based on the assumption that it is a proper one.

6 THE CHAIRMAN: You are taking it as you find
7 it?

8 THE WITNESS: Exactly.

9 MR. CUMMING: Q. Is your assumption as to
10 its propriety an assumption that it is a cost base
11 scale?

12 A. No.

13 Q. Well, I ask you again, should it be?

14 A. I am not here to make judgment on that.
15 I think this is a policy decision to be determined by
16 the Board of Transport Commissioners. They make this
17 policy decision. My problem is directed only to one
18 sphere and that is, how to handle the increases.

19 Q. How to handle the increases, and your
20 solution is that increases could be on a cost basis?

21 A. That is correct.

22 Q. And would you take that position whether
23 or not there are any, or any proper cost considerations
24 in the uniform mileage scale as it was established in
25 1955?

26 A. I would not want to pass judgment on that.
27 I think you would get into many areas of thought on
28 this, which is beyond the scope of this objective.

29 Q. I am not asking you to pass judgment on
30 it. I am trying to put these things on various



1
2 hypotheses. Assuming that the 1955 scale has no regard
3 at all to cost -- just assume that -- would you leave
4 that stand and direct your concern solely to increases?

5 A. I would. When the rail carriers come
6 before the Board of Transport Commissioners and say,
7 "Our costs have increased and we need more money", I
8 think the Board is justified in saying, "Your costs
9 have increased", and they do say, "How much have your
10 costs increased?", and we are saying essentially the
11 same thing.

12 Q. So it follows to the extent there are
13 inequities or improprieties or any other sort of evil
14 embodied in the uniform scale as it was established in
15 1955, this scheme does nothing to eradicate them but,
16 on the contrary, perpetuates them.

17 A. Yes. The term "scheme" worries me a
18 little bit. It has connotations and overtones that I
19 am plotting for the purpose of devious means..

20 Q. Oh, this is a habit of mine and perhaps
21 I should adopt Mr. Sinclair's rather kinder word --
22 this "plan". When I say "scheme" I am not suggesting
23 anything sinister. This "proposal" of yours, then.

24 A. Thank you. Would you repeat the question?

25 Q. To the extent there are any inequities or
26 improprieties or other evils in the 1955 scale, this
27 proposal or plan perpetuates them?

28 A. It does not alter the scale beyond the
29 changes in costs.

30 Q. Suppose that the reasons for a request



1
2 on an application made by the railways for rate increases
3 was not founded solely on a question of rising costs but
4 on a revenue need with which they were faced as a result
5 of declining traffic -- possibly because of the inroads
6 of competition: in such a case would the rate increase
7 necessarily have to be on this cost basis?

8 A. Of course, we have given some consideration
9 to the application of the formula which may result in
10 insufficient revenue and we have given an answer to this
11 circumstance which you have outlined.

12 You are suggesting something that is slightly
13 different, and I am not bypassing your thought. You are
14 saying, if the shipper appeared before the Board and
15 suggested that they would wish to increase their rates --
16 and I assume you are asking about an increase in rates --
17 is that correct?

18 Q. They come to the Board and they say, "We
19 are not making enough money and we need an increase in
20 rates so we can make some more because our revenue
21 requirements are not being met, and the reason for that is
22 not because we have been faced with a change in our cost
23 experience but because the trucks have stolen our
24 business and our business is down"?

25 A. It may well be that many of the rates
26 within the total scheme of rates, the total plan of
27 rates, are such that they need reflection to see if
28 individual rates should be put on a competitive basis,
29 and under the circumstances which you have suggested,
30 if you wish to change certain rates and make them



1
2 competitive, then there is nothing in the application
3 of the formula which will hinder this. If you wish to
4 change the classification to reflect these types of
5 things, then there ~~is nothing~~ in the application of the
6 formula which will alter this.

7 Q. I think I appreciate that. I understand
8 your formula is not designed to inhibit the ordinary
9 rate making activity.

10 A. And if you have appeared and found you
11 asked for an increase that was not sufficient, then
12 again we say, ~~scale~~ up in accordance with the figure in
13 order to arrive at sufficient revenue, because this could
14 be another factor. I have taken the factors one by one
15 and said, if it is a problem within the scale, then alter
16 by changing classification, by making certain rates
17 competitive, because there was an implication in one
18 statement which you made that it was this competitive
19 factor in certain areas. I would say, go to this area
20 and make those rates competitive, and then you still have
21 a scale which, in fact, does reflect competitive
22 circumstances in which you can increase rates based upon
23 increases in costs in the future. So, I have to say, are
24 you asking me how to change ~~the~~ the whole scale, and, if you
25 say, "how do you do that to make it competitive?", I
26 would say, "go ahead and change your rates and make that
27 competitive." If the reason for an increase in revenue
28 is because you did not ask for enough, then I would say
29 scale up in ~~accordance~~ with what I have suggested.

30 Q. That is the adjustment you would permit?



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A. Yes.

Q. Beyond actual cost ?

A. Yes, that is correct, beyond actual cost -- beyond measured costs.

Q. In order to meet revenue requirements?

A. That is correct.

Q. If I can just come back to this rather narrower basis of my question, and I am not concerned about the railways' problem of any adjustments they may have to make or ought to make, competitive-wise, and so on, but I am concerned about this: your proposal is designed to permit rate increases to reflect measured cost increases?

A. Yes.

Q. And you say this is a proper thing because the basis of the railways' applications from time to time for rate increases has been their claim or their actual experience that their costs have increased, and because their costs have increased their revenue requirements are not being met, and it is for that reason they seek a general revenue increase. Supposing that their revenue requirements are not being met, not on the particular occasion of another increase because of a sudden rise in costs, such as a new labour agreement or new scale of prices for rails or something like that, but because of a general decline in their business, and all things taken into consideration it is decided they must have an increase in rates in order to reach their proper earnings level. Should that kind of increase be put into



1
2 effect on the basis of the plan which you outline? That
3 is all I am asking.

4 A. As I understand it, there are just a few
5 very limited number of things which could bring about
6 the situation which you have depicted here. If because
7 of the competitive nature the relationship of the rates
8 of the rail carriers with those of other carriers it seems
9 impossible, it seems improbable, to be able to increase
10 their revenue, and it is believed that the rates are in in-
11 proper competitive relationship, that is one circumstance
12 which could bring it about, and the way to do it is not
13 to apply a flat percentage increase which, if compounded
14 upon itself many times, will distort rates and end up with
15 a series or a scale of rates which does not properly
16 reflect costs. The way to do it is directly attack these
17 specific areas in which, in fact, you have found your
18 rates are not proper and correct -- not attack the whole
19 scale of rates. I cannot answer your suggestion that
20 you would meet the situation which you have outlined by
21 applying a horizontal increase in rates.

22 Q. Is your position in the situation which I
23 have outlined one which is purely hypothetical?

24 A. It is not at all hypothetical. I would
25 not say that. I would say it is a very practical
26 problem which you have presented, and I would handle it
27 in a practical way by going directly to the cause.

28 THE CHAIRMAN: If there was a recession: what
29 then?

30 THE WITNESS: If there is a recession, then you



1
2 have some very interesting problems in all businesses.
3 There is no-one going to solve the problem of a business
4 in a recession, and you are going to suffer in this
5 recession, and I cannot find a panacea for the railway
6 situation.

7 COMMISSIONER GOBEIL: You mean for a recession?

8 THE WITNESS: For a recession, yes. There will
9 be many things applied and many will fail and have to be
10 corrected and recorrected.

11 MR. CUMMING: Q. This is directed solely to
12 the inflationary time and experience and rising costs?

13 A. It is not directed solely to this. This
14 formula works both ways, up and down. If costs do decrease,
15 the formula works just as well one way as the other.

16 Q. So, if wage rates and material costs go
17 down, then we simply apply the formula and these
18 authorized schedules work their way down?

19 A. That is correct. As costs change the rates
20 change in accordance with the changes in the costs.

21 Q. To follow that through, would it be self-
22 adjusting or would it be subject to continuing review
23 by, say, a regulatory tribunal who would keep a weather-
24 eye cocked on this situation to push the rates down if
25 they find the costs are going down in that way?

26 A. I have never found the rail carriers
27 hesitant to appear before the Board suggesting they need
28 more rates, and I am sure they would appear and point out
29 this fact.

30 Q. You think the railways would be before the



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2 Board suggesting the maximum go down?

3 A. I believe they would appear and point out the
4 costs have changed or that they were in trouble one way
5 or another. To have brought out all cost factors they
6 will appear before the Board and suggest they have
7 increased money in accordance with this recommendation.

8 Q. On page 2 I want to get the direction in
9 which your statement is going. You say at the top of the
10 page, "It is not within the proper scope of this study
11 to determine whether or not changed rail rates should
12 reflect changed costs." Your study sets out a proposal
13 whereby the costs can be reflected in changing rail rates?

14 A. That is correct.

15 Q. And I take it from the way in which you have
16 put it in that you think that is a desirable thing?

17 A. I have tried to put myself as objectively
18 into this problem as I could. I have said if the rail
19 carriers appear before the Board because of increased
20 costs and ask for an increase in rates, this is the way
21 it should be done.

22 Q. That is it. Please let me assure you I
23 am not suggesting any lack of objectivity on your part, but
24 you have developed this part, I take it, to recommend it?

25 A. I recommend it.

26 Q. This is not an academic exercise. It is
27 something you think can work and should be applied?

28 A. That is correct. The reason I say this is,
29 when, a little while ago you were talking about the
30 original scale and should this original scale actually



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2 reflect costs, my answer to you is that I am not in a
3 position to say it should reflect costs. I think this is
4 a matter for the Board to determine where they set the
5 scale. There are many factors involved in the
6 establishment of the original scale.

7 Q. And you did not set out to make an
8 examination of that?

9 A. No.

10 Q. That was a fact of life you accepted when
11 you embarked on this?

12 A. That is another study.

13 THE CHAIRMAN: You are not passing on cost of
14 service and value of service?

15 THE WITNESS: No.

16 MR. CUMMING: Q. In the next paragraph on page
17 2 this statement appears, "It is rather a simple procedure
18 to change rates in such a way that the resulting revenue
19 is sufficient to cover fully distributed costs including
20 capital costs." That statement, I take it, Dr. Little,
21 is one based on an assumption that there will not be any
22 impact on traffic volumes?

23 A. Well, I am saying that if there was a
24 contemplated impact you would then again scale up and
25 that they would, and have in the past, scale it up the
26 percentage increase. If they say to the Board that their
27 increases indicate they are \$10 million short, and their
28 total revenue is \$100 million, it appears you need a
29 10% increase in the rate. It is rather a simple thing
30 to compute.



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2 Q. Yes, although I take it you would agree,
3 and apparently the experience of the Canadian roads in
4 the last several years has been that computed increases
5 have not yielded revenue sufficient to meet their
6 requirements. This is what they say?

7 A. Yes.

8 Q. And keep saying, apparently. So, there is
9 a practical traffic problem?

10 A. Exactly.

11 Q. As to how much transportation can the
12 country buy?

13 A. Yes, I appreciate your point.
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2 Q. The tables that are set out on pages
3 3 and 4, Tables I and II, show interestingly enough
4 some fairly significant variations in cost experience
5 in the various regions of the United States that are
6 there referred to.

7 I just draw your attention to a couple of
8 these differences. Take the January, 1958, costs
9 in the eastern district in the category "Costs Unrelated
10 to Length of Haul" ---

11 A. Are you in Table I?

12 Q. I am on page 3, which is Table I.

13 A. Yes.

14 Q. But perhaps it would be more germane,
15 since those are fully distributed, really to look at
16 the ones on the next page, the out-of-pockets. The
17 same sort of situation obtains. Looking at the cost
18 unrelated to length of haul in the eastern district,
19 in 1958, that is 13.6 cents per hundredweight, whereas
20 in the southern district they are only 7.124 cents.

21 There are similar, although perhaps not as
22 marked, variations in the line-haul costs as well?

23 A. Yes.

24 COMMISSIONER BALCH: Were you reading from
25 3 or 4?

26 MR. CUMMING: I was on page 4, Mr. Balch.

27 COMMISSIONER BALCH: I thought so, yes.

28 MR. CUMMING: Q. I was just drawing Dr.
29 Little's attention to the very marked variation, par-
30 ticularly in certain areas, in the cost experience in



1
2 the various areas.

3 Now, having in mind those regional differences
4 which apparently obtained in the United States, is it
5 your suggestion, in applying the cost based rate in-
6 crease formula in Canada that the cost would be analysed
7 on a system-wide basis, or would it be more proper to
8 take regional or area costs?

9 A. Since the rail carriers in Canada, as I
10 understand it, have been appearing before the Board on
11 the horizontal method and asking for a nationwide
12 percentage increase, I am suggesting here that a
13 nationwide approach be made.

14 Q. So, the costs which would apply and which
15 would have to be determined would be system averages or
16 national averages, rather than regional?

17 A. Yes, that is the procedure they have been
18 using, and I presume that is the one they will continue
19 to use. This is a very flexible system. You will
20 notice it can be handled just about as you please.
21 That is one of its greatest values.

22 Q. It would, of course, I take it, preserve
23 the relationship between the various classes in the
24 uniform scale of mileage rates; would it not?

25 A. I will not agree to that until I am sure
26 exactly what you mean.

27 Q. Well, I have one here that I could show
28 you in which classes are set out 100, 85, and so on
29 down the line?

30 A. Yes.



1
2 Q. And as I understand the situation, when
3 that was established in 1955 -- if that is a 1955 one --
4 it was done having regard to all sorts of traffic and
5 value of service considerations and with a view to
6 establishing proper relationships between the rates
7 or between the commodities which move on those rates?

8 A. It would have the same effect on Class 2
9 rates and Class 3 rates. The percentage increase
10 would be the same.

11 Q. And the relationship between them would
12 be preserved, would it?

13 A. Yes. You could have used as your base
14 rate a Class 4, .55 per cent and you would have had
15 exactly the same percentage figures determined as you
16 would have if you had used Class 100, exactly the same.

17 Q. You mean if you double one you double
18 the next, and the relationship between them is still the
19 same percentagewise?

20 A. Yes, that is right.

21 Q. Now, in your examination of this problem,
22 and I do not know whether you have had an opportunity
23 to do it, you have found that the experience has been
24 line-haul costs have increased substantially less than
25 terminal costs?

26 A. Yes, that is correct.

27 Q. And that has been the experience over
28 the past, certainly eight or ten years, as the figures
29 you have in your table show?

30 A. Yes.



1
2 Q. Have you considered whether that is a
3 trend that will inevitably continue in that direction,
4 or do you think there is any possibility of a reversal
5 of it, and the rate of increase in terminal costs will
6 be lower than that in line-haul?

7 A. It could be. But terminal costs in
8 areas, periods of time in the future could increase
9 less than line-haul costs.

10 Q. And your formula would take that into
11 account in its operation?

12 A. Exactly.

13 Q. So that if line-haul costs increase at
14 a higher rate than terminal costs, then under the
15 application of this formula that cost experience would
16 be reflected in any rate increase that would come
17 about?

18 A. That is the intent of the formula.

19 Q. And it applies, as I understand it, only
20 to those rates, as you say later on in your brief, which
21 have been taking percentage increases?

22 A. Yes.

23 Q. And all other classes of rates, competi-
24 tive rates, agreed charges, and so on, would not be
25 affected by this?

26 A. The formula would not apply to them.

27 Q. It would not apply to them, and they
28 would be left to the normal rate making process?

29 A. Yes.

30 Q. Subject to negotiation, or whatever it



1
2 may be?

3 A. Yes.

4 Q. It, of course, entails the greatest detail
5 in the necessary cost study upon which it will be
6 applied?

7 A. It needs sufficient detail to determine
8 the cost increase.

9 Q. Both as to terminal and as to line-haul
10 costs?

11 A. Yes.

12 Q. And those cost studies would not be
13 confined to the increases in cost, but would have to
14 extend to the whole cost experience of the railroad?
15 Is that not right?

16 A. Yes, that is correct.

17 Q. As, otherwise, no percentages could be
18 determined, for one thing?

19 A. That is right.

20 Q. And it is essential that terminal costs
21 be established with as much precision as possible?

22 A. Yes.

23 Q. On page 10, in paragraph (e) you are
24 discussing there Table III, and there is an assumption
25 which you make that the Class 100 Rate for the first
26 mileage block is 120 miles.

27 That really represents terminal costs, and
28 that, of course, is originating terminal cost and
29 terminating terminal cost?

30 A. Yes.



1
2 Q. And that cost remains a constant figure
3 throughout any rate?

4 A. That is correct.

5 Q. And it is in order to be fair as between
6 the long haul shipper and the short haul shipper that
7 you segregate that out and make the increases apply to
8 that separately from the line haul?

9 A. Yes. This is the reason that the taper
10 exists. If terminal costs shifted, then you would be
11 in a serious position on your taper. The taper exists
12 because of the fact that terminal costs do not increase
13 with distance.

14 Q. Then, after your formula is applied and
15 there is an increase the rate will go up while the
16 percentage, this 62 per cent assumed figure, has risen.

17 Well, now, what is the situation, and what
18 is the impact on short haul shippers if that is done, and
19 that is the only terminal cost increase which a long haul
20 shipper pays, even though en route from Toronto to
21 Vancouver his goods move through a whole series of inter-
22 mediate terminals?

23 A. I wish you would -- I would like to ask you
24 to simplify that question. I am not sure I understand
25 the question.

26 Q. Well, let us start from the beginning.
27 Line-haul costs go up by x per cent; terminal costs go
28 up by x-plus per cent. And it is because of that
29 different increased cost experience in the two divisions
30 of cost that you segregate them in this formula and apply



1
2 the appropriate increases in either class?

3 A. Yes.

4 Q. And it is a foundation of your assumption
5 that as you have worked it out, the terminal cost is
6 that which is now represented by the rate for the first
7 mileage block?

8 A. Yes.

9 Q. And if you have a short haul shipper --
10 somebody whose goods move, say, 50 miles, or some dis-
11 tance of that sort from A to B -- the terminal costs
12 which are involved are covered in this 62-cent figure,
13 and the terminal costs which are involved are the
14 terminal costs at the point of origin and the point of
15 destination?

16 A. Yes.

17 Q. But a shipment moving from, say,
18 Toronto to Vancouver, is going to move through a
19 whole series of intermediate terminals?

20 A. Yes.

21 Q. That presumably would be the case?

22 A. Yes.

23 Q. So there will be the terminal handling
24 costs and the originating costs; that is, the Toronto
25 terminal costs and the Vancouver terminal costs, which
26 are represented by the 62 cents, but what about the
27 increased terminal costs which are involved in that
28 movement as it goes through the yards at the lakehead,
29 Winnipeg, Calgary and so on, on its way through to
30 Vancouver?



1
2 A. Certain switching operations?

3 Q. Anything there may be, yes.

4 A. At this point, I must say that I do not
5 in this formula tell you how to determine terminal
6 costs. I do not tell you, for example, the answer to
7 the question which you are specifying. And, frankly,
8 I think this could be worked out by people who are
9 extremely competent in this area, who would like to
10 differentiate whether they would prefer to include
11 the switching costs or not. It is not significant
12 whether you do or you do not increase them, providing
13 you are consistent, including those intermediate switching
14 points as a part of the total terminal costs. If
15 they were included as part of the total terminal costs
16 when you determine the increase in terminal costs,
17 then what you are suggesting as a problem would evaporate.

18 Q. If all those terminal costs are included
19 in developing the system average of terminal costs, then
20 is not the short haul shipper, whose movement does not
21 involve shipping at the lakehead, Winnipeg, and so on,
22 paying more of the increased terminal costs than he
23 ought properly to bear?

24 A. Let us just take a hypothetical case,
25 Mr. Cumming, on that. Let us suppose it was thought
26 that a very small part, a certain portion of a given
27 terminal was used in handling inter-carrier operations
28 -- switching operations, if you will. Or, if not
29 inter-carrier, just a movement through a terminal
30 point.



1
2 If a certain percentage of this were on a
3 line haul movement and not originating or terminating,
4 then you would apply that per cent which you had deter-
5 mined times those terminal costs in determining what
6 the total of the line-haul costs were. They would be
7 added. This comes into the part of determination of
8 what line-haul costs are.

9 The Interstate Commerce Commission, I am sure,
10 went through this analysis you are now involving your-
11 self in when they determined what the per cent of increase
12 in line-haul costs and terminal costs are. If you
13 notice, I do not take on the I.C.C. to determine whether
14 or not their procedure is correct. That is not a
15 part of this formula at all. I am sure that in due
16 course of time the rail carriers and the Board of
17 Transport Commissioners will work out the correct
18 answer to this.

19 Q. The problem that I raise, Dr. Little,
20 I take it, in your view is really just a refinement
21 that would have to be made; something that could
22 be developed through proper cost studies?

23 A. Yes.

24 Q. You do not see any difficulty in relieving
25 the short haul shipper of what appeared to me to be an
26 unnecessary, say, an unfair burden saddled on him with
27 additional terminal costs?

28 A. I certainly agree with you that those
29 intermediate terminal costs that are involved in a long
30 haul movement should be included in determining what the



1
2 increases in the costs are for a cost related and
3 not related to the length of haul.

4 Q. I do not know that you are agreeing with
5 me. They would have to be taken into account, but
6 would they be charged against the short haul shipper
7 who does not incur them?

8 A. No, no.

9 Q. They would be taken into account and then
10 somehow or other segregated out?

11 A. I feel reasonably sure that that is
12 correct, that they would be taken into account; they
13 would not be charged to a short haul shipper who had
14 no intermediate ---

15 Q. Terminal considerations?

16 A. -- terminal operations, yes.

17 Q. Incidentally, all this cost information,
18 which will necessarily have to be developed in order to
19 provide a foundation upon which this formula will
20 operate -- will that, in your view, be published?

21 A. I think that, in turn, is a matter for
22 the Board of Transport Commissioners.

23 Q. This is perhaps outside your brief ---

24 A. I would prefer not to comment on that.
25 There are policy questions involved in that that are very
26 extensive.

27 Q. I just have a couple more points here,
28 Dr. Little.

29 On page 20, in dealing with your critique
30 of the system and the comparisons with horizontal methods



1
2 near the bottom of the page you say:

3 "The assumption of no change in volume of
4 traffic responding to the increased rates
5 under the Cost Based Rate Increase Formula
6 is the same assumption adopted when horizontal
7 rate increases are instituted . . ."

8 The railways, if I understand what they say, take the
9 position that they do take into account the erosion of
10 traffic, the loss of traffic which will result from
11 the rate increase and then they seek a percentage
12 increase which takes that anticipated loss of traffic
13 into account?

14 A. I believe I said that, Mr. Cumming.
15 I believe I said this same thing which you have sugges-
16 ted.

17 Q. That being the case -- I am sorry, per-
18 haps I misconstrued what is contained in your brief --
19 but, that being the case, that being the basis upon
20 which the railways formulate their applications for a
21 percentage increase, would it not be said that the
22 method of horizontal percentage increase does in
23 fact take into account the competitive situation?

24 A. I fail to see how.

25 Q. Well, I suggest that on this basis: the
26 railways, when they want a revenue increase or rate
27 increase -- excuse me.

28 I am informed that I have been using the wrong
29 terminology -- erosion and attrition. I also used
30 the words "loss of traffic". However, I am indebted
to my friend for his assistance.



1
2 Q. In preparing an application for general
3 revenue increases the railways have regard to the
4 revenue requirements and they have regard to the impact
5 that increased rates will have on traffic and to the
6 inevitable loss of traffic in certain sensitive areas
7 for their increases in railray rates. Now, if that is
8 what they do, as I understand to be the case, surely they
9 are having regard to the competitive situation, they know
10 what they are going to lose to their competitor. Is that
11 not it?

12 A. You see, our interpretation of the word
13 "competitive" seems to be moving off in different areas.
14 I am thinking of the establishment of rates which reflect
15 the competitive circumstances rather than establishment
16 of rates which are competitive.

17 COMMISSIONER GOBEIL: Dr. Little, am I right
18 in thinking that you make it very simple and that
19 competitive rates are nothing to be touched by your
20 proposal?

21 A. That is correct.

22 COMMISSIONER ANSCOMB: It answers itself.

23 MR. CUMMING: Q. Well, ~~perhaps~~ we are getting
24 at cross purposes. However, may I just say this to you:
25 Is it not the basis upon which a railway application for
26 a general revenue increase is formed mainly that account
27 is taken of the loss of traffic that will result. Does
28 that not imply that the horizontal percentage increase
29 method is having the most careful regard to the
30 competitive situation, to competition generally?



1
2 A. The change in the percentage figure which
3 is determined under the horizontal method, to account
4 for it you originally used the term "erosion", is a
5 reaction to revenue needs and not competitive
6 circumstances.

7 Q. Reaction to revenue needs and not
8 competitive circumstances?

9 A. Yes, because the revenue increases when
10 you apply the horizontal increases you then add a greater
11 flat increase than you otherwise would have.

12 MR. FRAWLEY: Mr. Chairman, would I be helping
13 or hurting the situation by saying something now? I am
14 merely doing this to assist my friend, Mr. Cumming. I
15 might say that when the railways go before the Board of
16 Transport Commissioners seeking an increase in rates
17 their application itself makes it plain that they are
18 not seeking to apply this increase to competitive rates
19 or agreed charges. To use a loose expression, that is
20 their business. They put that on every time they can
21 and I am giving them credit they put it on every time
22 they can and also agreed charges is subject to the
23 contractual limitations that are there. But, when they
24 go before the Board they make it very plain they are
25 seeking to have a percentage increase in the traffic
26 other than the competitive rates and the agreed charges.
27 I am only saying that to help clarify the situation Mr.
28 Cumming has developed.

29 THE WITNESS: Mr. Cumming, I appreciate the
30 point you are asking me about is pertinent to another



1
2 point. You are suggesting that when you do determine a
3 percentage increase and you do add a little bit more than
4 would be really necessary in a comparison of revenue on
5 total revenue that you do a little more on the basis of
6 the fact the volume will rise. That is the question and
7 he is saying does that not suggest you are in competitive
8 circumstances?

9 THE CHAIRMAN: It is to normal traffic.

10 THE WITNESS: That is all.

11 COMMISSIONER ANSCOMB: I am to trying to
12 clarify my own mind which does not need clarifying. Dr.
13 Little simply says when there is an increase requested
14 he has the formula of dividing the costs of one place
15 which he thinks are higher in another, dividing the two
16 applying the percentage increase. That is all he is
17 doing, not moving from any other point at all, past,
18 present or future.

19 MR. FRAWLEY: I think that is a fair summary.

20 MR. CUMMING: I think that sufficiently
21 clarifies it and I have no further questions.

22 THE CHAIRMAN: Mr. McDonald?

23
24 CROSS-EXAMINATION BY MR. McDONALD:

25 Q. I just have a couple of points, Dr. Little.
26 In the application of your formula for increases you
27 would be applying a cost based increase to a scale of
28 rates which is not based on costs.

29 A. If they are not based on costs then I
30 assume they are not based on costs, I do not comment on



1
2 what they are based on?

3 Q. Now, you are familiar with the rate of
4 taper which is built into the rate structure?

5 A. Yes.

6 Q. And the effect of that rate of taper is
7 that as distance increases the revenue per ton mile
8 decreases.

9 A. Yes.

10 Q. And is not the effect of what you are
11 doing just a changing the rate of taper as far as these
12 increases are concerned.

13 A. It is true that the taper will change if
14 costs shift so as to bring about a change in the taper
15 but the purpose is not to change the taper.

16 Q. Just dealing with your purpose and the
17 rate of taper, in the first place it was without fixing
18 this that the short haul shippers were paying more of
19 a terminal charges than the long haul shippers?

20 A. I do not know what the intent of the
21 original taper was.

22 Q. Is that not the effect, the revenue per
23 ton-mile, say, on a haul of 200 miles is far greater
24 than the revenue per ton mile on 2500 miles?

25 A. I have seen figures of that kind but I
26 did not analyse Canadian figures to determine if that
27 is correct.

28 Q. And when you apply your base here I
29 notice it goes from a 10% percent increase to a 5%
30 which is in effect another rate of taper. Is that not



1
2 it, a rate of taper applied to your increase?

3 A. You are applying costs which can alter taper.
4 That is your point, is it not?

5 Q. Well, the point here is what you in effect
6 are doing is accelerating the rate of taper, accentuating
7 the rate of taper.

8 A. Only under circumstances that the costs
9 fall that way; if the costs went the other way I would
10 be doing the reverse.

11 Q. Well, your assumption was that there was
12 a greater increase on terminal costs and line haul costs?

13 A. Yes.

14 Q. That was your assumption?

15 A. Yes.

16 Q. And you worked it out and have your
17 increases from 10% to 5%.

18 A. Yes.

19 Q. Which is in effect a rate of taper applied
20 to your increase?

21 A. That is correct.

22 Q. But when you apply those percentages to
23 a rate into which the rate of taper is already built,
24 do you not just accentuate that?

25 A. You change it in accordance with the ---

26 MR. FRAWLEY: In accordance with the what?

27 THE WITNESS: In accordance with the cost.

28 MR. McDONALD: Q. And now, taking this, if
29 you are going to apply your formula of these percentage
30 increases tapered down from 10% to 5% to these rates,



1
2 should you not take the progressive rate without any
3 taper in it to get the right picture.

4 A. Would you restate your question?

5 Q. By applying your formula for increases
6 based on difference in cost should you not take a
7 progressive rate without any taper in it and apply it?

8 A. No, not if the Board is to increase rates
9 in accordance with the increased costs.

10 Q. What I am pointing out to you, the way
11 it strikes me is that by applying your percentages to
12 a rate in which the taper is built in you are
13 accentuating that taper.

14 A. You are making an assumption that the
15 changes in the cost do not and should not in any way
16 affect the taper. I am suggesting at the time, as of
17 March 1st, 1955, assuming that is a correct taper which
18 they have determined and all these considerations have
19 been taken into consideration by the Board of Transport
20 Commissioners, they establish the taper and a scale
21 which they say is correct and equitable. However,
22 times change and costs change and a taper that is correct in
23 1955 is not a correct taper today and we are making the
24 taper correct in accordance with the circumstances as
25 of today, not 1955.

26 Q. I am suggesting that that has already been
27 done when, supposing you applied a flat 10% increase
28 across the sheet?

29 A. Oh no.

30 Q. The rate of taper applies ---



1
2 A. I beg your pardon, no, not if costs do
3 not shift. You see, if this taper is correct and it
4 reflects all of those circumstances which the Board
5 wish to be reflected and circumstances change and costs
6 have changed and relationships of costs have changed,
7 it would be very incorrect to retain an old taper.

8 Q. You think that -- do you suggest the whole
9 rate of taper should be changed?

10 A. Circumstances suggest and in fact require
11 that it be changed.

12 Q. Well, following this one step further,
13 suppose your formula were applied to a number of
14 successive increases.

15 A. Yes.

16 Q. Would it not distort the whole rate
17 picture.

18 A. I would suggest it would be distorted if
19 it did not reflect them.

20 Q. What would happen? You can see the
21 picture, you are building this into a rate scale where
22 there is a rate of taper?

23 A. Yes.

24 Q. And as you apply your scale to it that
25 rate of taper is accentuated?

26 A. It is changed in accordance with the
27 measured costs.

28 Q. On the assumptions you have worked on and
29 if you did that continuously then you may get to a point
30 after about twelve successive increases where the short



1
2 haul shipper was paying the same rates for 300 miles as
3 the long haul shipper for 2500 miles.

4 A. I would not visualize that happening.

5 Q. I will not go into that but I have a chart
6 showing it here worked on your basis. I think that is
7 reasonable because as you apply this it is ---

8 A. What you are suggesting is that the
9 terminal costs have increased so much more rapidly than
10 the line haul costs during these many years, say 40
11 years in which a number of successive changes of rates
12 have taken place, these terminal costs have increased so
13 much it has now become more costly to take a short haul
14 than it is to take a long haul. I am suggesting that
15 would be very rare indeed.

16 Q. I did not suggest that, you suggested it.

17 A. You still have your original costs of
18 origin and destination.

19 Q. I am not suggesting that your assumption
20 is that the terminal costs have increased more than the
21 line haul costs.

22 A. I have not assumed anything nor my
23 formula assumes absolutely nothing. It takes what are
24 given facts and applies them.

25 Q. Where did you get the facts to apply this
26 to the Canadian freight rate structure that the terminal
27 costs have increased more than the line haul?

28 A. These figures which I have used are of the
29 ICC which are entirely for illustrative purposes only
30 because the facts were not present for the Canadian



1
2 railways when requested.

3 Q. Getting back to the line haul costs and
4 terminal costs, are these costs separated?

5 A. Sufficiently so the ICC can work on its
6 findings.

7 COMMISSIONER GOBEIL: Mr. McDonald, on your
8 notes, do I see some figures on tapering?

9 MR. McDONALD: Yes.

10 COMMISSIONER GOBEIL: Can you give me some?
11 For instance, what will be the taper between 275 miles and
12 1200 miles?

13 MR. McDONALD: I can give you a reference. I
14 have the Judgment of the Board here in the case of March
15 15, 1955 and this has been referred to before and
16 Schedule "B" to that order shows the rate of taper ---
17 one from 200 ---

18 COMMISSIONER GOBEIL: That is all right, I will
19 find it.

20 MR. McDONALD: The schedule is attached and you
21 get it there.

22 COMMISSIONER GOBEIL: Thank you.

23 MR. McDONALD: Q. Well, my point then is that
24 to apply your formula as you continually employ it you
25 are going to distort the rates between the short haul and
26 long haul shipper so the short haul shipper is going to be
27 charged more in the proportion than the long haul shipper.

28 A. I am sorry, I am saying that if you did not
29 do it it would be distorted.

30 MR. McDONALD: I think that is all, thank you



1
2 very much.

3
4 CROSS-EXAMINATION BY MR. SINCLAIR:

5 Q. Dr. Little, it has been my privilege for a
6 good number of years to take the position that the most
7 equitable method of a general increase is the horizontal
8 percentage increase method. I want to tell you that so
9 that you would know where I stand and what my client's
10 position is.

11 A. I anticipated that.

12 Q. So I may understand this and not get at
13 cross-purposes with you, you tell me if this is basically
14 what you have in mind. The reason I am going to ask you
15 this is that I find at page 10 at the bottom this statement:

16 "Terminal costs do not change with the length
17 of haul."

18 And on page 15 you say that you must determine
19 terminal costs for varying distances. Now, I think what
20 you mean is this: the costs, your terminal costs do
21 change with the length of haul but origin and destination
22 terminal costs do not. That is what you mean?

23 A. You are suggesting that this really
24 determines how you determine terminal costs and I say
25 that is correct.

26 Q. So to take care of this really does not
27 cause you, if this was to be applied, too much difficulty.
28 I suggest that is your position?

29 A. Yes.

30 Q. What you would do is, you would take as your



1
2 key the column 100 rates and you take them through the
3 whole scale by mileage block?

4 A. Yes.

5 Q. And for each of the mileage blocks you
6 would strip out terminal costs and line haul costs by
7 mileage blocks?

8 A. That is correct.

9 Q. 50, 100, 200, right up to 3,000 miles, and
10 so you finish up with terminal costs struck out by mileage
11 blocks.

12 A. That is right.

13 Q. The residual being line haul costs. In
14 this way you would have the intermediate terminal costs
15 identified for the shipment moved say 400 miles at an
16 origin and destination with two intermediate terminals,
17 you would have it stripped out by mileage blocks for 400
18 miles. Similarly, if it was only 50 miles you would get
19 no intermediate terminal at all?

20 A. I would not agree with that. I simply do
21 not become involved in the problem. I think it would be
22 a problem which would not be difficult to handle but I
23 do not become involved in it. I think that is one of
24 those decisions of the Board of Transport Commissioners
25 when it is setting up what it wishes included in terminal
26 costs and line haul costs.

27 Q. Well, as you say -- I have to understand
28 you because if you do not do what I am suggesting you do
29 then you have an intermediate terminal factor that you
30 delineated as a line haul factor and it was because of



1
2 this difficulty that I thought what you really did was
3 strip out terminal costs throughout the whole range of
4 the scale. Do not misunderstand me, this is not where I
5 am going to disagree with you so do not be too suspicious.
6 I am really at this stage trying to help you, if I may so.

7 A. I appreciate that.

8 MR. FRAWLEY: Yes "if I may say so" a very
9 necessary qualification.

10 MR. SINCLAIR: Well, the second point is this,
11 that your proposal and your plan takes column 100 rates
12 and then it takes all the other rates in the rate
13 structure and it does not assume, does it, that all the
14 rates have a relationship to column 100 or to the class
15 rate?

16 A. Yes, it does. Looking at these figures
17 which Mr. Cumming gave me, it is a sheet where we have
18 the class 100 rates and the class 85 and 70 and 55 and 40
19 and 35 and 30. You take anyone of them and get the exact
20 same percentage.

21 Q. Yes, but you are in class rates working
22 down the various columns. I want to clean up that you,
23 for instance, mileage commodity scales or a specific
24 commodity or competitive rates?

25 A. We do not deal with competitive rates.

26 Q. Well, I am going to show you that you
27 cannot say that. Let us go to the commodity scales,
28 specific commodity mileage scales and specific mileage
29 commodity rates. You say they are not columnized, if I
30 might use that phrase as the Americans like to use it.



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You say even in that case all commodity rates are not reflected in the column?

A. I am aware of that.



1
2 Q. And in Canada there is not as much as
3 in the United States, possibly, but they all don't
4 have a relationship is what I am saying. Specific
5 commodity rates in Canada might not have a relationship?

6 A. I know where you are going.

7 Q. Would you agree with me your plan does
8 not require that because you are going to split the
9 rates by mileage blocks?

10 A. I am saying that whether this product
11 which you are moving is a product which is not in the
12 class rate structure -- is something other than in
13 the class rate structure -- but is subject to the
14 general rate increase, and it is moving to a point
15 which is, say, 275 miles, that the per cent of line
16 haul costs to terminal costs is the same essentially.

17 Q. I am saying to you that your plan
18 envisages irrespective of the mileage rate -- it
19 looks upon putting all traffic into mileage blocks even
20 though it may not be on a mileage scale?

21 A. Yes, because on the mileage block you
22 have this common denominator of the distance being the
23 same regardless of the product that is moving.

24 Q. If we are agreed your plan does work
25 on mileage blocks irrespective of relationship, that
26 you strip out the terminal costs throughout in applying
27 your scheme to determine the relationship of terminal
28 and line-haul costs, I now want to ask you this ---

29 MR. FRAWLEY: I don't know that the
30 witness has agreed with that assumption.



1
2 MR. SINCLAIR: Well, I will ask him to
3 approach it with me, Mr. Frawley: I think he said he
4 would leave it to the Board as to how they got out the
5 terminal costs.

6 THE WITNESS: That is correct.

7 MR. SINCLAIR: Q. And you would also agree,
8 and I think it is clear, if you don't strip them out
9 at intermediate points, then the intermediate terminal
10 costs will have a bias into your line-haul costs as
11 distance increases?

12 A. It is true if terminal costs increase
13 more than line-haul costs and if you did include the
14 intermediate terminal costs it would tend to add more to
15 the total overall rate for longer distance shipments
16 than if you did not include the intermediate terminal
17 costs; that is true.

18 THE CHAIRMAN: You could not disregard this
19 intermediate cost?

20 THE WITNESS: No.

21 MR. SINCLAIR: Q. Dr. Little, rather than
22 try to put this to you in words, I, last night, had this
23 typed up and I wonder if it wouldn't be easier to
24 follow this in my questioning. I have prepared this
25 little table and you will see on the bottom of it the
26 source: the source is your document, and I would suggest
27 that this table be taken into the record at this point
28 in its entirety, if my friend has no objection to that.

29 MR. FRAWLEY: Without being marked as an
30 exhibit?



MR. SINCLAIR: Yes, just taken right into the record.

APPLICATION OF DR. W. I. LITTLE'S COST

COMPUTED RATE INCREASE FORMULA

Rate	Miles					
	200	7% inc.	600	6% inc.	1200	5% inc.
Column 100	184	13¢	359	22¢	623	31¢
	(13¢)		(22¢)		(31¢)	
Column 45	83	6¢	162	10¢	280	14¢
	(6¢)		(10¢)		(14¢)	
Column 27	50	4¢	97	6¢	168	8¢
	(4¢)		(6¢)		(8¢)	

Source: Table IV, Page 31 Submission by Province of Alberta The Cost Based Rate Increase Formula.

If you look at this table you will see the first column shows Column 100, Column 45 and Column 27, and across the top I have got the miles, 200, 600, 1200, and the reason I have taken those mileage breaks is because under your suggested illustrative table there were breaks in these mileages that are encompassed in these three areas which I have taken. You went 7, 6, 5.

COMMISSIONER GOBEIL: Where is the 600?

MR. SINCLAIR: It is right in the middle of the first column; it is on the break 6.

COMMISSIONER GOBEIL: But it is not a dividing point?



1
2 MR. SINCLAIR: It is within the division.
3 As I say, I have taken 7, 6, 5 I could have gone all
4 the way -- 10, 9, 8, 7, 6, 5; but I have just taken
5 7, 6, 5 in the rate break; it is page 31.

6 Q. Well, then, Dr. Little, what I have done
7 is taken your percentage increases and applied them to
8 the class rates for the classes that you have taken,
9 presumably, from our class rate structure.

10 You will notice by going across the page, at
11 column 100, that the increase has marked differences,
12 and you can take it either across the page by mileage
13 or down the page by classification rating, and I would
14 ask you, looking at those figures, to tell me for the
15 benefit of the Commission whether you think those
16 increases do reflect changes in line-haul and terminal
17 costs.

18 A. Under the assumptions I have made they
19 could not help but reflect them -- if your mathematics
20 are correct here.

21 Q. Well, assume with me, and subject to
22 check, that they are?

23 A. Yes, I have made a quick check of them
24 and they do appear correct.

25 Q. What you are saying there is that traffic
26 moving at column 27, that the cost increase is only 4
27 cents, but if it moves at column 100 the cost increase
28 is 13 cents; do you think that is right?

29 A. I am telling you this is nothing but a
30 reflection of the scale as it exists, and I didn't make



1
2 this scale as it exists. If it is incorrect, I am
3 sorry.

4 Q. No. But the point I am using this for
5 -- and this point has been put to you by a number of
6 other people -- and I am trying to use this table to show
7 you that, I suggest to you, if you are interested in re-
8 flecting costs and distributing costs between line-haul
9 and terminal, you can't take whatever your determination
10 is and apply it to a rate base without very markedly
11 distorting the relationships?

12 A. You are referring to the scale again?

13 Q. Yes.

14 A. That you have changed the scale, and I
15 have agreed, of course.

16 Q. But markedly?

17 A. Costs change, times have changed and re-
18 lationships have changed.

19 Q. But you are going to change it, I suggest
20 to you, from this table, not in relation to cost changes
21 because the base that you are working from, which is
22 the big number -- if you are going only to use a small
23 number, which is cost on top of base -- is going to be
24 distorted very markedly, as this table shows; can you
25 see that?

26 A. No, I can't see that.

27 Q. Well, now, Dr. Little, you say the rail-
28 ways in Canada have stated an across-the-board increase
29 in rates is equitable; this is on page 1?

30 A. Yes, I believe you made that statement,



1
2 almost, a moment ago.

3 Q. Yes, I would not be at all surprised if
4 that is a quotation from me. Of course, it is not my
5 purpose to give evidence; that was an argument I was
6 making. In any event, we accept that is the position
7 of the railways -- and it is, no matter who says it.
8 That is the position of the railways.

9 You then move from that and say this: "There
10 is involved an inherent assumption that new rates
11 should equitably reflect the changes in the costs."

12 A. What page are you on now?

13 Q. On page 1 at the bottom of the page.
14 In other words, you equate equity and costs; correct?

15 A. I am still trying to locate exactly where
16 you are.

17 MR. FRAWLEY: In the very last paragraph of
18 page 1.

19 MR. SINCLAIR: Q. "If the purpose submitted
20 by the rail carriers for the changing of existing rates
21 is a change in costs, there is involved an inherent
22 assumption that new rates should equitably reflect
23 the changes in the costs." Right above that you
24 had stated that the railways of Canada and the United
25 States have stated that an across-the-board increase
26 in rates is equitable?

27 A. Yes.

28 Q. What I am saying is that basic to that
29 is your assumption, and you are equating equity equals
30 costs -- equity and costs determined are equated;



1
2 correct?

3 A. Let me start this again to be sure we
4 are in complete agreement on this.

5 Q. Yes?

6 A. If you start with an assumption such as
7 this, that people should be charged additional rates
8 in accordance with the increased costs of providing the
9 service, and you have a base which is correct and equit-
10 able, then it seems that it would be equitable to
11 charge them the increase in the costs, yes.

12
13 ---Luncheon adjournment.
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-- On resuming at 2 p.m.

THE CHAIRMAN: Order, please.

MR. SINCLAIR: Q. Dr. Little, before the luncheon adjournment I was discussing with you this table which I prepared with the assistance of my adviser, Mr. Edsforth, and it is all the data in the table that is now part of the record and which is before you taken from your paper and tables attached to that paper.

I put to you that this table indicated that your formula would not result in the increase being cost determinant, and you said to me that you would not agree with that.

Now, over the luncheon recess, I know you have looked at this and I want you to follow with me, and if you take your pencil and just do this: you will note that I have column 45, and I am going to go across the page. Across the page, for 200 miles, and with a 30,000 pound minimum carload, I am going to keep this constant ; column 45, 200 miles, 30,000 pounds, the increase would be \$18.00 a car. For 600 miles, it would be \$30.00 a car, and for 1200 miles, it would be \$42.00 a car.

Now, for column 27, again, 30,000 pounds. For 200 miles, it would be \$12.00 a car; for 1600 miles, it would be \$18.00 a car; and for 1200 miles, it would be \$24.00 a car.

I ask you to observe that although the weight and length of haul remains constant, the increase, which is supposed to be under your plan cost determinant, in



1
2 regard to column 45 the increase between 200 and 1200
3 miles is in excess of two times; that is, 18 to 42. But,
4 for column 27, it is exactly two times.

5 In other words, that although the work is the
6 same by the railroads, the distance is the same, the haul
7 is the same, all the cost factors are the same, your rate
8 figures formula increases one substantially more than the
9 other?

10 A. Yes, it would have to.

11 Q. And it is for this reason I suggested to
12 you that your plan is not cost determinent in applying
13 increases?

14 A. And my answer to that is, Mr. Sinclair, this:
15 that these dollar figures which you have worked out take
16 into consideration the taper that exists as the result of
17 column 45 all the way across, and column 27 all the way
18 across.

19 And you were applying these percentages times
20 an existing rate which was different in each case, and
21 you cannot arrive at anything other than precisely what
22 you did, and if you look you will see that your figure of
23 \$18.00 -- the relationship of 6 to 18 is exactly the same
24 as 14 to 42. The relationship of 6 to 14 is exactly the
25 same as 18 to 42; the relationship of 4 to 8 is exactly
26 the same as 12 to 14 in column 27, precisely, and the fact
27 you are not getting exactly the same dollar or percentage-
28 wise shift only comes from the fact that you are
29 multiplying cost percentages times different bases.

30 Q. Well, of course, because if you look



1
2 vertically you will find on what I have given to you
3 that although I have got the same weight and I am going
4 the same distance, merely because I have rated the
5 traffic differently, you have in one case under 200 miles
6 an increase of \$18.00, and in another case, \$12.00.

7 A. Exactly. You would not want me to throw
8 out the taper that existed prior to the increase; and
9 the only way it can be as you think it should be would
10 be to throw out the taper that existed prior to the
11 increase.

12 Q. I am only trying, Dr. Little, to see
13 whether it increases our cost determinant. And I thought
14 that you would speak to me and answer me in the way you
15 have, and in anticipation of that I made one other
16 calculation.

17 Assume, if you will, as is the fact, that as
18 you descend in the columns of the class rate scales the
19 minimum changes, so , I am going to take column 45, as
20 I have put to you, at a 30,000 pound minimum and I will
21 ask you to add underneath that at column 27 at 40,000
22 pounds; and if you do this you will find the calculations
23 are this: at 40,000 pounds minimum, under column 27, I
24 will have \$16.00; for 1,600 miles, \$24.00; and for 1200
25 miles, \$32.00; and looking at those figures, I suggest
26 to you that what they immediately show is that withstanding
27 that I have put additional weight into the work being
28 done under column 27, the increase is less for 40,000
29 pounds than it is for 30,000 pounds.

30 And I am asking you to tell this Commission



1
2 how you can increase the work, and there is some work
3 associated with weight, and if it is cost determinant,
4 have increased weight, increased work, increased cost
5 under your formula resulting in an increase?

6 A. It could not possibly be otherwise than
7 what you have given it. I see no argument with these
8 figures at all.

9 What you are suggesting now is that we get a
10 \$16.00 charge for column 27 rating for a movement of 200
11 miles compared to \$18.00 for 30,000 pounds movement under
12 45, and you are suggesting --

13 Q. Just a minute. 40,000 pounds; you get
14 \$16.00 --

15 A. And you add \$18.00 for 30,000. That is
16 your point, is it not?

17 Q. That is my point.

18 A. And I say to you it could not be otherwise.
19 You see, I do not establish the ratings; the Board of
20 Transport Commissioners has established these ratings,
21 and it is these ratings which are multiplied times a
22 fixed percentage and that is responsible for these
23 differences in figures.

24 Q. You see, Dr. Little, as was put to you by
25 a number of other people here, and this was just to bring
26 this into focus, for the increase to be cost determinant,
27 line versus road haul, would require you not to use the
28 relationship of line and road haul and apply a
29 percentage to a number as if they were absolute, which
30 you have to do unless you depart from the value of



1
2 service concept of pricing that is in the basic pricing
3 structure. You would not agree with that?

4 A. No, not at all. What you have here is a
5 situation in which for many reasons, compounded or
6 otherwise, we have a greater charge for a given weight
7 on a product moving at one rating than you have at
8 another rating; very considerably different charges. And
9 what you are saying is, is it not interesting that when
10 we apply the same percentage terms to these figures that
11 the dollars that are forthcoming are not exactly the
12 same. I am saying to you if you start with a base very
13 different you could not help but come out with dollars
14 that are different.

15 Q. Dr. Little, it is not only interesting but
16 the reason that a straight percentage does give you
17 these differences, I suggest to you, is that by taking
18 a percentage increase -- you can make the calculation,
19 if you wish, on that basis -- you will find that by
20 using a flat percentage or what we call a horizontal
21 percentage increase that you will continue to reflect the
22 value of service characteristics that were in the basic
23 rate structure. But, when you do what you do, and
24 attempt to put it cost-oriented, not only can you not
25 make it cross-oriented because the base is not cost-
26 oriented but also you distort the value of service
27 characteristics that were the determinant of the basic
28 rate structure. I ask you if you agree?

29 A. I would be hard put to figure out
30 anything which is more incorrect. I cannot agree with



1
2 you, Mr. Sinclair, in any respect because what is
3 happening is this: when you started with a given scale
4 and you applied a flat percentage, of course you retain
5 the exact scale. You are suggesting this is what we are
6 saying, and I am saying we are not saying that at all.
7 We have a complete change of circumstances here. We have
8 now cost relationships that require that that scale be
9 altered, so that when you tell me it is altered, I am
10 not at all surprised. I say that is correct. This
11 correction we have made that adds to a given base an
12 added given number of dollars, which are a measure of
13 the increase in costs, are in fact not a distortion but
14 to prevent a distortion from taking place if you had
15 applied the flat percentage increase.

16 Q. Dr. Little, if your scheme measures the
17 additional costs that have taken place, please tell the
18 Commission why for handling a car of more weight the
19 same distance cost determinant makes the increase less?

20 A. Because percentage applied to different
21 bases come out with different results. That is the
22 simple, brief answer, and it is just as fair and logical
23 and proper as that can be.

24 Q. It may be fair and logical, but what you
25 are saying by that -- if you are saying by that that the
26 base to which you use the same percentage increase you
27 multiply with a higher base gives you a higher answer
28 than the lower base, we teach that pretty far down
29 the line, and if that is what you are saying, I am sure
30 that everybody understands it. But I am saying to you



1
2 that you said that you were attempting to accurately
3 measure the increase in relationship to cost ---

4 A. That is right.

5 Q. -- and I say that it is impossible for you
6 to do so because the base is not cost determinant, and it
7 has to be cost determinant for you to accurately use a
8 cost determinant increase?

9 A. I would say no.

10 Q. And I ask you to say to this Commission if
11 your increase is cost determinant -- keep right on this --
12 if your increase is cost determinant, please tell the
13 Commission how an increase could be less if it is cost
14 determinant for carrying a heavier load the same distance
15 as a lighter one?

16 A. Simply because the percent is applied to a
17 dollar cost figure based upon the rates which are given
18 which result before the increase is applied at
19 different costs, and therefore when the same fixed
20 percentage is applied to those different costs for the
21 same weight for the same miles you must come up with different
22 increases in the costs.

23 Q. With different increases in the costs?

24 A. As you have indicated, 18 to 12 --

25 Q. I suggest to you that you do not come up
26 with different answers as to the increases in the costs;
27 you come up with different answers as to the increase in
28 the rate, having nothing to do with cost?

29 A. I think that is a correct statement that
30 you just made. That is right. I would accept that. What



1
2 you are doing is increasing the rate based upon increase
3 costs. That statement was correct.

4 Q. Now, Dr. Little, do you suggest that rate
5 increases should not reflect value of service
6 characteristics?

7 A. I am saying that if you come before the
8 Board and ask for increased rates based upon increased
9 costs that this formula will give you the results, but if
10 you wish to change the value of service characteristics,
11 and you feel that for competitive reasons because this is,
12 is it not, the principle reason that we do make differences
13 in rate bases on value of service, or what the traffic will
14 bear, so to speak, that if you do apply this procedure,
15 I am suggesting you go directly to the source of the
16 problem, which is the particular rates that are out of
17 line, change their classification, or change their rates,
18 put them into competitive status.

19 Q. Let me then ask you whether your plan --
20 because we seem to get at cross-purposes on these words --
21 would your plan be applied if the railways came forward
22 for a general increase in rates because of a change in
23 commodity mix?

24 A. I am not quite sure that I understand what
25 you mean.

26 Q. Well, under the Canadian freight rates --

27 A. Are you talking about class 10 or rule 10?

28 A. No, no. I am talking about this, Dr.
29 Little -- I am not talking about mixing rules under the
30 classification at all; that is nothing to do with this



1
2 question.

3 A. All right.

4 Q. The dollars that made by Canadian Pacific are
5 made up of the relationship of commodities moving at
6 various rates per hundredweight?

7 A. Yes.

8 Q. And if the proportion, if the number of ton-
9 miles remain the same, but if the proportion of high
10 rated to low or medium changes, the end result in dollars
11 changes --

12 A. All right.

13 Q. -- and I suggest to you to assume with me
14 that Canada's development in the extractive industry
15 which are moving at low rates, the addition of sulphur
16 and potash in western Canada and the erosion of the
17 high rated traffic, if you like, because of import
18 competition into Canada, results in the ton-miles
19 remaining the same, but the Canadian Pacific having a
20 higher proportion of low rated traffic; and, in view of
21 this, the railways come to the Board of Transport
22 Commissioners and they say to them, our commodity mix
23 has changed because of not only changes in cost but
24 changed conditions which is higher imports from the
25 manufacturers and the railway carrying a larger proportion
26 and doing the same kind of work on extractive commodities.
27 Now, the Board under the law can change and alter rates
28 from changing conditions in Canada.

29 A. Would you make the last statement again?
30



1
2 Q. Under the law in Canada the Board can
3 change and alter rates ---

4 A. Is this "an altered rate"?

5 Q. Change and alter rates not only for cost
6 of transportation but for as changing conditions may
7 from time to time require. It is an alternative.

8 A. Oh, I see.

9 Q. So I now have given you the changing
10 conditions on a commodity mix and I am asking you to tell
11 this Commission ---

12 MR. FRAWLEY: What my learned friend is
13 doing, of course, is a little interpreting and submitting
14 a legal argument as he goes along. Section 38 of the
15 Act certainly empowers the Board to change and alter
16 rates as changing conditions may from time to time
17 require. Is my learned friend now saying that one of
18 the changing conditions referred to is the fact that
19 you are carrying too much, shall I say, skelp to
20 Vancouver and not enough higher rated traffic, and
21 that is a condition which warrants a freight rate in-
22 crease.

23 MR. SINCLAIR: Now, just a minute.

24 THE CHAIRMAN: You are asking for an opinion.

25 MR. SINCLAIR: I do not think anyone will
26 disagree with the interpretation of this because it
27 has been argued before the Supreme Court, the fact that
28 it is an alternative, the changed conditions. I
29 was very careful to put in the situation which he might
30 envisage, but a situation completely outside the



1
2 railways entirely. I had changed the commodity mix
3 because of import and Canadian manufactures moving by
4 rail, the ton miles having completely offset the
5 per ton mile by the recent industries in Canada. That
6 is the situation. With all due respect to my friend, he
7 may be from Alberta but other people know a few things
8 too and this is not improper in the present situation.

9 MR. FRAWLEY: I challenge the interpretation
10 so you can go on from there. I do not think my friend
11 has laid it down as the only interpretation to be placed
12 upon it and if the witness must have my friend's inter-
13 pretation to enable him to answer the question then I
14 suggest the witness is going to find it difficult to
15 be responsive to your question.

16 THE CHAIRMAN: Ask the question.

17 MR. SINCLAIR: Q. So you will not feel under
18 any disability by accepting my interpretation of the
19 Railway Act we will do it this way: assume with me that
20 the Board of Transport Commissioners can make a general
21 increase in rates for changing conditions?

22 A. By "general increase in rates", you mean
23 change the scale of the rates?

24 Q. Change the scale throughout the whole piece.
25 They authorize the railways to make a general increase
26 in rates for changing conditions and changing conditions
27 alone. How, would you please tell the Commission, where
28 the ton mile remains constant and the changed conditions
29 have resulted in the traffic being less and the manu-
30 facturing being less, how would your scheme work?



1
2 A. This scheme would work considerably better
3 than the flat percentage method because the flat per-
4 centage method does not make any change whatsoever in
5 the scale, it does not approach it in any way. One
6 of the factors which might be responsible for this
7 desired change could have been a change in costs. In
8 that case it would have attacked it directly. But suppose
9 for a moment there were other factors which you have
10 suggested which are not changes in cost, under a flat
11 percentage method there would be inherent in it no way
12 of approaching this problem. Under this procedure
13 which I am suggesting here all you have to do is change
14 the classification of these products or put it into a
15 competitive rate status.

16 Q. What you are suggesting to make your
17 scheme work under these conditions, the railways to get
18 their revenues should change the classification, we
19 will say, on sulphur from column 27 to column 45?

20 A. It will certainly give them different re-
21 sults in total revenue if the volume does not change.

22 Q. That is the way you would meet the pro-
23 blem?

24 A. I am suggesting there are a number of
25 alternatives and this is one of them.

26 Q. And you do the same thing, Dr. Little,
27 if the cause of the general increase was a change in
28 income tax alone? Just a change in income tax.
29 We assume that the government in its wisdom has changed
30 the income tax rate from 40 per cent to 50 per cent.



1
2 COMMISSIONER ANSCOMB: Would you call that
3 wisdom?

4 MR. SINCLAIR: I am speaking in parables.

5 MR. FRAWLEY: How long have you been speaking
6 in parables?

7 MR. SINCLAIR: When I am talking about income
8 tax and when I am talking about poor Alberta. I use
9 the word "wisdom" with respect to income tax and "poor"
10 with respect to Alberta. May I start again?

11 Income tax here is a cost and I am asking you
12 to tell this Commission how your scheme -- I use the
13 word "scheme" with no offence at all -- your proposal
14 would work with respect to adjusting a general rate
15 increase based on an increase of 10 per cent in the
16 income tax rate?

17 A. Well, you see, there are many types of
18 tax and you would have to find out what type it is. Is
19 this tax you are applying a fixed or variable cost and
20 how does it apply, in fact, to the line-haul and the
21 terminal cost?

22 Q. You may say it is part variable, it has
23 effects on variability and effects on fixed costs. I
24 have picked this one deliberately so it is not too
25 easy. Now, there is part of it in variable and part
26 of it in fixed; how do you work it out? You are
27 going to apply your plan ---

28 A. I would, if I were a railroad, or, in
29 this instance, the Board of Transport Commissioners,
30 certainly have a tax of varying types appropriated or



1
2 allocated in a proper cost accountant way into the
3 areas of line-haul costs and fixed costs. If we found,
4 for instance, that a large portion of these costs should
5 be appropriated to the line-haul then they would have
6 increased line-haul costs to that extent and they would
7 be accounted for in the percentages that would apply.

8 Q. Dr. Little, income tax applies to taxable
9 income and the increase I have given to you is taxable
10 income. Are you suggesting the Board of Transport
11 Commissioners should determine the profitability or
12 the earning ability of line haul as against terminal
13 operation?

14 A. There is no doubt but in the breaking out
15 of the costs they are going to have to arrive at a
16 working procedure.

17 Q. You mean by that an arbitrary procedure?

18 A. Yes, this is a cost and all costs are
19 going to have to be broken down in this way. These
20 determinations, I think, are being made daily. I
21 do not think this would be difficult to work out, there
22 would be problems and unhappiness resulting no matter
23 what the decisions were that were forthcoming, but it
24 is not an insurmountable problem.

25 Q. And it is your opinion the formula such as
26 assures the increase in rates will reflect the increased
27 costs for individual movements?

28 A. Well, when you say "individual movements"
29 --what we have here is an increase in line-haul costs
30 and an average of increase in terminal costs for the



1
2 system and they are applied times the rate for each
3 block. I might say what you are working towards is
4 the question of an average and that is true.

5 Q. In other words, you are anticipating my
6 line of questioning to say that this is true, that by
7 using averages for the basis of your cost based rate
8 increase formula it is impossible to reflect the cost
9 increase factors for individual movements.

10 A. You can closely reflect the cost in an
11 individual movement. Because you are working on an
12 average basis does not prevent you from working it.
13 You can carry it down as far as you want, work it down
14 from territory to individual movements. However, I
15 suggest you do not do this on an application because it
16 would result in such an infinite amount of computation.
17 We have given averages and what we are saying to you
18 people is "What are your increases in line-haul and
19 what are your increases in terminal in general?"
20 We say, "Given a particular movement we will determine
21 what part is line-haul cost and what part is terminal,
22 and we will apply the percentage increase for the line
23 haul and for the terminal for the whole system times
24 this." What you come out with is something that
25 quite accurately reflects, with a reasonable degree of
26 application in directness, what the increased costs are
27 for the individual movements.

28 Q. Dr. Little, in so far as there are devia-
29 tions from the average the results of your proposal
30 would be that it would not be cost determinant. Correct?



1
2 In so far as there are deviations from the average in
3 individual movement it would not be cost determinant?

4 A. Your use of the words "cost determinant"
5 is what is stalling my answer. I would like you to
6 repeat it so we are sure we are talking about the same
7 thing.

8 Q. In so far as there were deviations from
9 the average your proposal would not be cost determinant?

10 A. Right.

11 Q. Correct?

12 A. Right.

13 Q. In so far as there were differences in
14 costs associated with differences in weight your pro-
15 posal would not be cost determinant?

16 A. No, I would not agree with that.

17 Q. That your plan would result in heavier
18 loadings moving the same distance having a lower in-
19 crease although there was a higher cost and a lighter
20 load?

21 A. You are referring to the table?

22 Q. Yes.

23 A. Again I say to you this has nothing to
24 do with any railways in building the formula. It is
25 because you are working on a different base.

26 Q. By assuming averages for the determina-
27 tion of terminal costs you do two things: first, you
28 assume that terminal costs -- you assume that it is
29 in order to apply an average terminal cost across the
30 system. You have spoken about that. But, in



1
2 addition by using averages you give no weight to cost
3 determinants by routings. For instance, a movement
4 that starts on a branch line and moves through one
5 major terminal and finishes at a branch line as
6 against a movement that starts on a main line and
7 finishes at a main line having moved through three or
8 four major terminals. Correct?

9 A. That is correct.

10 Q. You give no effect to that?

11 A. Wait a minute, do not go too fast. You
12 see, what we are proposing is something which does take
13 some consideration of this whereas the procedure which
14 has been in effect for all these years takes no considera-
15 tion of it.

16 Q. That is a question of argument and I
17 will come to that at an appropriate time.

18 A. I am saying if you want to follow the
19 true theory of this formula down to the smallest detail
20 you can accomplish what you suggest this does not do.
21 This does everything you want it to do, but it depends
22 on how refined you want to go in its application.

23 Q. I just want you to agree with me that
24 the proposal that you have given to this Commission does
25 not give weight to cost characteristics on different
26 routes. That is a short way of putting it, and the
27 answer is?

28 A. The answer is when you do arrive at
29 your general percentage increase across the country
30 for long haul you do not, when you come up with one



1
2 figure, you cannot handle five thousand different ship-
3 ments. This is something that is very, very true, you
4 won't be able to suggest anything that ever will.

5 Q. Now, in your Table III you have used a
6 cost figure for terminal costs of 62 cents. You will
7 agree that this is predicated solely on the fact that
8 there are no terminal costs that are taken into account
9 other than the origin and destination terminal costs?

10 A. No, sir, I would not. This was a very
11 arbitrary selection, and this formula in no way turns
12 on that selection of 62 cents.

13 Q. I am awfully sorry. I am not taking
14 the number as being a determinant, but the fact that
15 this constant for 3300 miles, 62, 62, 62 -- my point
16 is the same whether it is 75 or 25 or 35, but the fact
17 I put to you is that it is constant throughout the
18 scale. I say to you this means you have reflected
19 in your calculations only the origin and destination
20 terminal costs.

21 A. I have anticipated that question and I
22 have worked on it for some time to search out what the
23 answer would be to what you are suggesting. If you
24 remember this morning when this question was directed to
25 me I pointed out that when it was determined what were
26 line-haul costs and what were terminal costs, at that
27 time when that decision was made and when as a result
28 of that decision you compute what the percentage in-
29 crease in terminal costs long-haul were on the line you
30 handle this problem.



1
2 Q. Very well, if you say that is the fact
3 then that is what you would say. Then, can you tell
4 me why you get by the very high mileages practically
5 no terminal cost at all?

6 A. It just happens that these figures
7 do turn out ---

8 Q. That, of course, is not the fact because
9 the terminal cost ---

10 A. It happens that out of a total charged
11 here at 3300 miles, \$15.24 that 62¢ represents a pretty
12 small portion of it. That is what you are saying.

13 Q. That is right.

14 A. Yes.

15 Q. And that, of course, does not properly
16 represent the terminal cost for the 3300-mile movement?

17 A. Then if you use the proper correct
18 terminal cost ---

19 Q. And hold it constant throughout ---

20 A. On an average, yes.

21 Q. On an average?

22 A. Yes.

23 Q. Have you considered this mathematically?

24 A. Yes.

25 Q. You have?

26 A. Yes, this is the average you are talking
27 about now?

28 Q. This is the average of all terminal costs
29 of the system.

30 A. Let me show you what I mean. Let us



1
2 suppose, for instance, just by way of assumption, that
3 they decide that there is a switching point every
4 thousand miles of travel or five hundred miles of travel.

5 Q. I would suggest for the Canadian Pacific
6 it would be more in the way of 125 miles or 150 miles.

7 A. I pulled this out of the air, it makes
8 no difference to me.

9 Q. It makes a difference to the impact of
10 it and I suggest this railroad is set up on the basis
11 of about 125 miles to 150 miles of terminal operation.
12 One hundred and fifty on the average, perhaps.

13 A. When you compute what the average per cent
14 of increase is in terminal cost using this computation,
15 these figures on the average, you will come out with
16 justification and correctness far beyond what the
17 flat percentage increase will give you.

18 Q. You say that the increase will come out
19 far beyond what the percentage increase will give you?

20 A. Yes.
21
22
23
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1
2 Q. Because in the line-haul cost factor
3 there is something other than pure line-haul cost
4 because in arriving at the average of the terminal costs
5 you have averaged your origination and destination ter-
6 minals with intermediate terminals?

7 A. Yes.

8 Q. Which -- the latter?

9 A. When you are determining your terminal
10 costs throughout the railway system and determining
11 what this cost would be, and arriving at a percentage
12 of increase in these costs for the whole system, on the
13 average, this percentage applied times terminal costs
14 will reflect the additions of those types of expenses
15 that you are referring to.

16 Q. Well, I want to go back -- and I am
17 afraid this is my fault -- I am asking you, and I put
18 it to you again, is the reason for your insistence on
19 this that your plan envisages the average terminal costs
20 being an average of origin and destination terminals
21 and intermediate; that is my question.

22 A. I appreciate this, and I say again I
23 have not directed myself to this determination in this
24 study, that this represents a small area in which
25 there will be some work to be done, but, if you will,
26 it is like when we sit down at the university to decide
27 we are going to raise the entry standards from 2 to
28 2.5. We do not go out in detail and say, what will
29 this do to the seniors in the high school level, and
30 the juniors or the sophomores. When the general



1
2 proposal is made and adopted by the senate of the uni-
3 versity, the theory in total is accepted and they work
4 out the details. I am doing this here. I am saying
5 many of these small problems which you are bringing out
6 will be worked out.

7 Q. But it is important to look at some of the
8 ramifications that might happen?

9 A. Yes.

10 Q. For instance, to carry on with your
11 analogy, if, by raising the entrance standards and the
12 relative maturities of boys versus girls, you have a
13 university full of girls there might be somebody who
14 would object?

15 A. I don't think so, not in Washington.

16 Q. My point to you is, ramifications that
17 flow from decisions made in advance have to be con-
18 sidered and tested, and it is important to do this, and
19 that is why I say to you that you would brush aside
20 some points that are very important by saying, "They
21 are a detail you can work out," because, I suggest to
22 you, that the average of terminals, if that is what you
23 wish to do, of origin, destination, intermediate, resolves
24 itself in one way, and if you are, in your terminal costs
25 flowing only from origin and destination, and let the
26 intermediate reflect themselves in line haul ----

27 A. We are anticipating a problem which could
28 never exist. I do not know how the Board of Transport
29 Commissioners will answer the problem you have established.
30 It may be they will not prefer to include these inter-



1
2 mediate switching details. I would suggest when that
3 time comes, perhaps they will sit down and work on this.

4 Q. It may well be this, that when you get it
5 through, and if they determine to leave intermediates
6 as part of the line-haul cost that the result would be
7 the calculations would come out that the cost increases
8 were falling tolerably within limits of being spread
9 even?

10 A. I am sure -- and you will agree to this
11 -- that these very small switching operations that take
12 place represent a pretty small part of the total cost of
13 transportation.

14 Q. Well, I would not agree with that, Dr.
15 Little, no.

16 On page 7 you said -- and the reason I deal
17 with it is that you said this morning in relation to
18 these two items, one at the bottom of page 7 and one
19 at the top of page 8 -- you said this must be accomplish-
20 ed for your plan to work. I am paraphrasing you -- they
21 were absolutes; they were necessary. These two are,
22 first, be capable of computing an overall percentage
23 change in rates for each mileage block so as to correctly
24 reflect changed costs when the percentage change in
25 costs related to length of haul has been different from
26 the percentage change in costs not related to length of
27 haul; and secondly, be capable of applying the computed
28 overall percentage increase in rates for varying dis-
29 tances to existing tariffs, thereby eliminating the
30 need of changing existing tariffs each time a change in



1
2 rates is required.

3 First, let me ask you this: do you know that
4 the equalized class rate scale in this country is not
5 operative throughout the entire country?

6 A. I have heard that.

7 Q. Do you know that it does not apply in
8 the maritimes?

9 A. I have heard that.

10 Q. And under your plan would you have a
11 different increase on traffic to and from the maritimes
12 than you would for comparable distances elsewhere?

13 A. The answer is very simple and direct: if
14 the Board of Transport Commissioners see fit to have a
15 different scale existing in different parts of the
16 country, then I am not the one to do anything with
17 this formula other than apply it times the scales
18 which do exist for those areas of the country.

19 Q. I am going to ask you, Dr. Little, that
20 in so far as it does exist it prevents your increase
21 from being determined by cost?

22 A. It does not prevent it. It can be
23 applied very well. If at some future date they wanted
24 to have fifty different scales in Canada it could be
25 applied just as well. You are increasing the rates
26 which do exist in those areas by the cost, and that is
27 all this formula does.

28 Q. But the costs will go up, let us say,
29 the same in Ontario as they do in the maritimes, and
30 yet you are going to have a different increase for the



1
2 same length of haul for the same amount of work in
3 the maritimes than you are in Ontario?

4 A. If you have a different scale you will
5 come out -- you could not expect to start with different
6 scales and come out with the same scale.

7 Q. And that is why it cannot be cost determi-
8 ned?

9 A. It can be cost, and it is cost. It does
10 adjust each of these in accordance with their increase
11 and their cost.

12 Q. If the costs are going to be related to
13 mileage, I suggest to you this, that by taking your
14 proposal and applying it on a movement from Halifax,
15 Nova Scotia, to Windsor, Ontario, and using your tables
16 and using actual mileage, so that I can properly reflect
17 everything, I am going to suggest to you in applying it
18 to the existing rates that the increase will be such as
19 to make a rate from Halifax, Nova Scotia, to Windsor,
20 Ontario, compared to a rate from Saint John, New Brunswick,
21 to Windsor, Ontario, which is a substantially shorter
22 distance -- it will result in the short distance, Saint
23 John to Windsor, having a higher rate than the long
24 distance, Halifax to Windsor?

25 A. I don't believe this is so.

26 Q. I will call a witness to prove it.

27 A. I would like to see the distances, and I
28 would like to see the scale of rates; I would like to
29 see the percentages, and under the circumstances I would
30 then approach the question, but I could not do it without



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2 all the facts.

3 Q. Let me tell you the reason that this
4 will work in this way: it is a question of distances
5 and groupings ---

6 A. You are talking about group rates?

7 Q. I am talking about groupings, and not
8 group rates. In other words, that the groupings and
9 the rates are not co-terminus; in other words, another
10 way of putting it is, it is not like the table you had
11 of having competing mileages because the rate is not
12 fixed on the basis of the mid-point of the group, and
13 that is why I have given you this example, and I suggest
14 to you ---

15 A. Yes, I have anticipated this question.

16 Q. Well, will you give the Commission your
17 answer?

18 A. The answer is, if you do have a situa-
19 tion, in a group or area, in which you have the same
20 rate, then you use the rate base of that area and
21 apply the percentage.

22 Q. Even though it does not properly reflect
23 in group rating the mid-point to establish the rate
24 level?

25 A. You apply the rate -- the percentage to
26 the rate base and apply that percentage times ---

27 Q. Even though it is not a group where the
28 rate level is fixed on the mid-point of the group --
29 irrespective of how the rate level and group is fixed?

30 A. I have a feeling you are grasping at



1
2 something I don't fully understand, but as far as I
3 can see, yes.

4 Q. Therefore, notwithstanding the fact the
5 rate group may be fixed -- that the rate level for the
6 entire group on the short mileage -- and you are going
7 to use that as the determinant of cost, you still say
8 your method would result in increases reflecting costs?

9 A. I am saying that for the rates and for
10 the cities for which these rates are applicable, which
11 started out with equal rates in this general given area,
12 if you apply this percentage times it you will end up
13 with the same rate again for all these varying points,
14 and that they do, in fact, represent increases in cost
15 on more of an average basis for the groups in the
16 area. What you have done is prefer by selection to
17 retain equal rates in the group area. It does not
18 mean the formula cannot be used. It can be used just
19 as effectively as you use your percentage increases
20 under the horizontal method.

21 Q. Dr. Little, I wish you to consider with
22 me the second of your essentialities, and that is that
23 it was easy of implementation by what you call a
24 simple one sheet -- I don't mean by that that you
25 can't, because you have got to go 1300 miles, turn
26 the page, but it is ---

27 A. Relatively speaking it is a very simple
28 thing.

29 Q. I suggest to you that because of the
30 numerous variations that come from the necessity of



1
2 applying it to varying conditions such as the one I gave
3 you to and from the maritimes, that you can't do it by
4 a master tariff with link supplements. Have you con-
5 sidered the impact of groupings, the impact of differen-
6 tiations in loads and the particular effect on costs
7 being reflected by a master tariff with link supplements?

8 A. If I follow you correctly, I have.

9 Q. And you say it still can be done?

10 A. Yes, I say it is not difficult at all.
11 This situation of a series of group rates would not
12 create difficulties in the use of this formula, and with
13 the simplicity that I have in mind, likewise, because
14 what you have here is rate established upon a rate base.
15 It may well be that the Board of Transport Commissioners,
16 just the same as we in the State of Washington have
17 our Washington Public Service Commission, determined
18 what will be the rate base and determine as a matter of
19 fact ---

20 MR. FRAWLEY: Not yet they don't, there is no
21 rate base in Canada.

22 MR. SINCLAIR: Q. There is one other thing I
23 would like to put to you in that regard. You talk about
24 simplicity, and in answer to Mr. Commissioner Gobeil
25 this morning you stated ---

26 A. What is very simple?

27 Q. This plan of yours made things very simple
28 in regard to competitive matters because you were not
29 going to apply it to competitive rates?

30 A. Yes, I remember that.



1
2 Q. You remember the question put by Mr.
3 Commissioner Gobeil, and your answer was "Precisely"
4 or "That is right". I suggest to you that even
5 though you exempt competitive marked rates, that is,
6 designated by tariff action, that does not solve your
7 problem at all because, first, you have point to point
8 or other rates that are designated normal commodity
9 rates that are reflecting competitive conditions;
10 and secondly, that the attrition factor which requires
11 under our present plan and the way we operate of
12 having a lower percentage increase on some of the rates
13 than they would have for other rates, cannot be taken
14 into account under your scheme?

15 A. It could be taken into account just as
16 well. As I understand it, when a percentage increase
17 is applied at the present time, that the Commission
18 does not require the railroads institute them, and I
19 think the same would be said here.

20 Q. But yours is tied to the recovery of a
21 cost in a determinant way, but at the present time the
22 railways calculate attrition and apply different
23 percentage increases so they can maximize their net
24 revenue to their various classes of traffic, and I
25 say under your plan, if you are going to allow them to
26 do that, it is physically impossible to operate with a
27 master tariff and just link supplements?

28 A. Well, I am not sure again that I am in
29 complete understanding of what you have in mind. By
30 the word "attrition" were you talking about decrease in



1
2 volume by increases in rates?

3 Q. No "attrition" is the word that we
4 interpret here to mean a decrease in the theoretical
5 mathematical yield from applying a given percentage to
6 a pre-existing level of revenue.

7 A. All right.

8 Q. And "erosion" is where because of in-
9 creased costs the railways must shed certain traffic,
10 or where because of increased costs and increased rates
11 there is relocation or alternative sources of supply
12 which results in loss of traffic?

13 A. Yes.

14 Q. Now, are we one?

15 A. I am not sure how close we are one, but
16 I think I have a pretty good general idea of what you
17 are meaning.

18 Q. Yes.

19 A. Now, would you repeat the question?

20 Q. Under your scheme where there is attrition
21 of revenue because of competitive situations, how can
22 your plan operate to give effect to that attrition and
23 at the same time be handled by a single master tariff?

24 A. Would you again define "attrition"?

25 Q. It is the amount of revenue that com-
26 petitively must be foregone from the mathematical yield
27 that would come from applying the absolute percentages
28 to the revenue that was pre-existing.

29 A. Well, I have suggested in the format
30 of the submission itself that this would be handled in



1
2 much the same way that you do it under a flat percentage
3 increase, that you do make an estimate of what this so-
4 called attrition is, that you will make an estimate
5 of what the attrition is under the application of the
6 formula, and that you will scale up the formula in
7 order to arrive at enough revenue to account for the
8 attrition loss.

9 MR. FRAWLEY: I know Mr. Sinclair is putting
10 to the witness the situation in all honesty and sincerity,
11 but I do want to call to the attention of the Commission
12 and the witness that it is not as simple as Mr. Sinclair
13 would make it sound when he talks about the way in
14 which the railways endeavour to meet with factors of
15 erosion and attrition. The percentage increase is given,
16 and the railways go back to Montreal and then do as well
17 as they can to meet these factors, but there isn't any
18 simple formula laid down. There is a good deal of
19 trial and error, and many times -- I remember an instance
20 the last time where I was examining Mr. Edsforth very
21 carefully as to whether he was going to put on certain
22 increases on a certain piece of traffic, and he said,
23 "I assure you, Mr. Frawley, the increase will go on
24 that traffic." Now, Mr. Edsforth said that quite
25 sincerely, but what happened? The increase did not go
26 on that traffic. Afterwards they found they could
27 not put it on or they would have lost the business.
28 I think it is only fair to this witness who comes here
29 from Seattle to endeavour to present a constructive
30 submission to the Commission, that we understand that



1
2 the railways have not got a simple problem in endeavouring
3 to meet these problems.

4 THE CHAIRMAN: I think that is one of the
5 reasons behind Mr. Sinclair's questions.

6 MR. SINCLAIR: That the railways have not got
7 a simple problem in dealing with general revenue cases
8 certainly would not have any dissent from a person like
9 myself. We have a very difficult problem, and I don't
10 want the Commission in any way to think that because I
11 am putting questions like this to Dr. Little that I am
12 saying he is not coming here in all sincerity to try
13 to put a plan forward. Of course, we are looking at
14 it, and looking at all plans, but I think it is my
15 duty, and I hope I am being of some assistance in
16 pointing out some of the troubles I see in it.

17 THE CHAIRMAN: You are quite right, Mr.
18 Sinclair.

19 MR. SINCLAIR: Q. I would like you to tell
20 me, Dr. Little, for the assistance of the Commission as
21 to how you would determine the revenue result from the
22 proposal that you have. For instance, to make this
23 precise: the railways are met with the need for addi-
24 tional revenues of \$20 million, and they are required
25 to apply your formula for the increase: how do the
26 railways determine the revenue result from the appli-
27 cation of your formula?

28 A. A very practical question. When you
29 determined that 20 million you determined it by
30 adding your costs and revenue and finding what the



1
2 difference was between them. In the process of doing
3 it, you determined what your costs were. Now, when
4 you compute your costs under this procedure which you
5 have implicitly stated, and you arrive -- taken given
6 dollar costs and with the consequent converting of these
7 into percentage of the per cent of increase, then,
8 if the percentages are accurately applied you will
9 be coming forth with sufficient income to cover these
10 increases in costs.

11 Q. Well, I have a different increase, under
12 your scheme, for different mileage groups. How am I
13 going to determine how much traffic is in each mileage
14 group -- how much dollars of revenue are in each mileage
15 group? Are you suggesting that the railway first go
16 through all the waybills and all mileages on them?

17 A. Oh, no.

18 Q. You know that an agent on a railway or
19 a shipper -- he does not fill in mileages; so that I have
20 got hundreds and thousands of waybills and I have to
21 know what my earnings are precisely?

22 A. Yes.

23 Q. I have to know them precisely by certain
24 mileage blocks?

25 A. Yes.

26 Q. And I have to know them also and arrange
27 as to the effect that the increase would have on low-
28 rated versus high-rated so that I can properly look at
29 my erosion and attrition factors?

30 A. Yes.



1
2 Q. How am I going to get all this information?

3 A. You would already have it when you come
4 forward with this 20 million figure. It would be in
5 your hand.

6 Q. I haven't got that big a hand. You say
7 I have it in my hand, but how many months does it take
8 me to get it?

9 A. I am not familiar with how long the
10 railways spend in providing the required data for the
11 Board of Transport Commissioners and the ICC. I don't
12 know -- and I am not trying to be facetious. I am
13 saying this: when you determined that you needed \$20
14 million you had to go through a certain degree of
15 financial investigation -- the regular report, what
16 were your costs, what were your revenues -- all right.
17 Suppose you had determined that you do not have as
18 much revenue as you had before: then, clearly there
19 must have been some shift in the costs or else a shift
20 in the volume of traffic?

21 Q. I think we are at cross purposes. Under
22 your proposal I have to know two things: I have to know
23 precisely, meticulously, for Canadian Pacific, because
24 in presenting figures in a general revenue case for
25 Canadian Pacific, with the help of my friends down
26 through the years, we have learned that you must be
27 meticulous?

28 A. Yes.

29

30



1
2 Q. So you have to meticulously determine by
3 blocks the revenues for these various blocks and, in
4 addition, you have to meticulously determine the rate
5 level ranges that are behind that block of dollars. I
6 am asking you how long do you think that it would take
7 Canadian Pacific to get that kind of detailed information
8 to show the yield that will arise from the percentages
9 proposed?

10 MR. FRAWLEY: Does that my friend say that he
11 goes before the Board in a revenue case with information
12 which will show the revenue yield from each mileage block
13 in the mileage scale?

14 MR. SINCLAIR: No, of course I do not, Mr.
15 Frawley. Of course I do not.

16 Q. I am asking if this witness's plan -- maybe
17 I do not understand it at all; if I do not, I am sorry --
18 I understand that this witness's plan for a different
19 impact in respect of mileages ; he goes 9, 10, 8, 7, 6,
20 5 on his table here. This, I suggest to you, requires
21 you to know meticulously, to figure yield, the number of
22 dollars, and to figure attrition and erosion, the rate
23 level range to make up those dollars in each of the
24 mileage blocks that are reflected by the descending
25 percentage increase. I am sure the witness would agree
26 that to get the yield this has to be noted.

27 A. My answer to that --

28 Q. Would you agree you would have to get the
29 yield?

30 A. No, Mr. Sinclair, you would not have to.



1

2 I could not agree with you.

3 Q. You tell me why not.

4 A. Because when you determine the overall
5 increase in your costs and you would have to determine
6 what your costs were to determine what your lack of
7 revenue was, you must have a comparison between those
8 costs which you computed and the former costs, and you must
9 have a statement there. You should very simply be able to
10 work out what the change in percent of those costs are.

11 Q. Dr. Little, listen carefully with me, will
12 you please?

13 A. I will try, sir.

14 Q. What I am trying to do is to find the yield;
15 what will be the result in dollars of the increase.

16 A. I appreciate that.

17 Q. This has nothing to do with the step you
18 first took, and that is to the determination of how the
19 \$20 million was spread. That is a lot of work, we will
20 agree, and we have done that, and we have discussed that.
21 I want to know how I am going to determine the yield and
22 I know that because of relationship of line haul under
23 your plan to terminals that there are varying mileage
24 blocks where the split is going to take place, 200, 500,
25 700, whatever it may be. To get the yield, I am suggesting
26 to you, the yield in dollars from the increases --
27 nothing to do with the costs --

28 A. I know.

29 Q. I have to know what I am going to multiply
30 this factor that I have determined by my cost delineation



1
2 determination, what I am going to multiply that
3 percentage to. And I am suggesting to you that to know
4 that and to do it with any degree of tolerable accuracy,
5 because we are dealing with millions of dollars here, that
6 I have to be meticulous in determining the revenue from
7 each of the blocks mileage. This is not the classification
8 mileage; this is the swing mileage block, where the
9 percentage is changed. I also have to know not only that
10 block of revenue meticulously, but I also have to know,
11 I suggest to you, the range of the rates that are making
12 up that block of revenue within that group so that I can
13 properly assess my attrition and erosion and take care of
14 that by applying the percentage?

15 A. I understand correctly, and I suggest, again,
16 let us assume for just a moment that we had no changes in
17 the volume of traffic and that you had a demand for an
18 increase in a given number of dollars. Well, I suggest
19 why would you want them; because your costs have increased.
20 Well, how did you arrive at that figure; and it seems to
21 me, Mr. Sinclair, that when you determine what that
22 percentage is and apply it in this way this is nothing
23 but another way of assuring that the percentage you
24 computed, the difference between old costs and new costs,
25 is the dollar. That is the revenue you need. That is
26 the revenue.

27 Q. I suggest to you, Dr. Little, that you are
28 not making a proper differentiation between costs and
29 rates. If you are applying your plan to a fully and
30 effectively cost-oriented and cost determinant base, you



1
2 would be right, but we have proved that you are applying
3 it to a non-cost-oriented determinant base.

4 A. That has no bearing on it, Mr. Sinclair.

5 MR. SINCLAIR: Thank you. Well, Dr. Little,
6 I have spent a fair amount of time with you and I do
7 thank you for being patient with my questions.

8 Thank you, Mr. Chairman.

9
10 BY COMMISSIONER GOBEIL:

11 Q. Dr. Little, my English is not too good;
12 but you will have to be patient with me.

13 While Mr. Sinclair was cross-examining you, I
14 was looking at your table 4 and doing a little bit of
15 arithmetic with it. If you will look at it, Dr. Little,
16 and if you would take those figures, maybe what I have
17 in mind is all wrong, but you see for 20 miles it is .62?

18 A. Yes.

19 Q. And then for 500 miles it is 3.15?

20 A. Yes.

21 Q. So the 500 miles is five times larger than
22 20 miles?

23 A. Yes.

24 Q. You mark that.

25 A. Twenty-five times larger in distance, you
26 mean?

27 Q. No. The cost; the rate?

28 A. The rate, I see.

29 Q. It is five times larger?

30 A. I beg your pardon. That is correct.



1
2 Q. If you do the same thing with 500 and 1000
3 miles you have 1.7 times larger?

4 A. Yes.

5 Q. I think I am right. You just mark the
6 figure. Between 500, which is 3.15; and 100, which is
7 5.35, it is 1.7 times. And from 1000 to 1,500, it is
8 1.4.

9 A. Yes.

10 Q. And then you go 1,500, 2,000, it is 1.3,
11 and it is quite a coincidence, but then it goes down by
12 one-tenth. You see, 1.3, 1.2 for 2,000; 2,500; and 1.1
13 for 2,500, 3,000.

14 Well, if I understand your formula after 1,200
15 there would be no more reduction; it will always stay
16 1.4; isn't that it?

17 A. You are getting a 5% increase because of
18 the increase in terminal costs. It would increase
19 approximately the same as terminal costs increase.

20 Q. Yes, but with this there would be no more
21 increase.

22 A. There would be a 5% increase.

23 Q. No, but the ratio will always be 1.4?

24 A. Yes, I see what you mean. The taper would
25 remain the same because the same percentage is being
26 applied.

27 Q. I think you would be working for Ontario
28 or Quebec, not for Alberta. I mean, for the west, they
29 will not benefit of any more taper?

30 A. Yes, this is true. I have to take the



1
2 taper, and it does turn out that way.

3 Q. That would be good for central Canada, but
4 not for the west, money-wise?

5 A. Yes, I see your point. The reason for that
6 is -- I mentioned the taper which exists in the class 100
7 rates at the present time is set up there, that it comes
8 out with this effect with an extreme taper on the end.

9 When you take a limited amount of the terminal
10 cost and you apply with this very small terminal costs
11 which seems to be less than 10% of total costs, when you
12 get away down on the end figure it looks like no
13 percentage increase at all in the ceiling.

14 Q. On this part of your formula, which is line
15 haul costs, there will be no more taper after 1,200?

16 A. Yes, I pointed it out in the brief, this is
17 a problem in the taper as it exists. This taper is a
18 responsibility of the Board of Transport Commissioners.
19 I felt this was a sacred ground. I would not dabble
20 with this taper. I left this taper to the Board, for
21 they established this taper and if they find reason to
22 believe that their taper was incorrect, as it was
23 established originally, they can go ahead and correct
24 their taper, but the formula still applies.

25 Q. Will you correct me if I am wrong. What
26 I mean is this, that your formula from then on, if it
27 was applied, after 1,200 miles it would be a straight
28 10% increase? Just like at the present time?

29 A. Yes, but --

30 Q. Otherwise it will be like the present



1
2 situation?

3 A. You see how much better this is than if it
4 were all 5%. That is the choice we make.

5 Q. But your formula will not correct a
6 situation which is not right now?

7 A. No, I believe the Board should do that.
8 That really is a separate problem, I feel, Mr. Gobeil.

9 Q. If what we have now is not correct, we
10 should correct it by your formula? I mean, when you take
11 this class rate 100, this class rate is not correct
12 because it is horizontal percentage increase we have now.
13 It is no good; and if we apply yours for 2,000 miles
14 instead of 975, and if you stick to 1.4, because after
15 1,200 miles you never increase, they would not go up
16 from 975 anymore. If you multiplied by 1.4, it will be
17 1,057, and then we multiply 1,057 by 5, and Alberta
18 will be paying more?

19 A. Yes.

20 Q. And if you go to 3,000 miles, and if you
21 correct that, instead of 1,345, I think if you multiply
22 it by 1.4 you will get 2,072.

23 So, that is all the increase you make it to
24 be based according to your formula, 2,072?

25 A. There certainly is no doubt that if the
26 rate was correct in 1955 and if rates in Canada increased
27 in accordance with the cost increases in the United
28 States, then certainly the scale of rates which exist
29 permanently in Canada must be incorrect. It could not
30 be other than correct. This is your point, and it is



(Gobeil)

1
2 true that these inequities which have transpired since
3 this 1955 optimum was established are not going to be
4 corrected by the formula. It will do this? It will
5 prevent more inequities and while you are having a flat
6 5, an equal 5, that ranges from 12 clear to 1,300 miles,
7 at least you are not having 5% increase all the way along
8 the line.

9 Q. Dr. Little, if our Commission was to go
10 by your recommendations, tell me if I am wrong --
11 something moving from Montreal to Vancouver class 100
12 instead of paying 1,345 they will pay right away 2,072?

13 A. I guess that is right, if you have worked
14 out the mathematics on it.

15 Q. And to Alberta instead of paying 1,069,
16 they will pay 1,480.

17 A. Yes, I guess that sounds right.

18 Q. You also said to Mr. McDonald -- I have a
19 note Mr. McDonald told you that what you were really
20 suggesting was increases varying from 10 to 5%. Is it
21 not a fact you really have only three increases -- that
22 9 and 10% you talk about does not mean much?

23 A. I do not quite understand you.

24 Q. On table 4 --

25 A. Yes, sir.

26 Q. 10 and 9% goes only for 40 miles?

27 A. That is correct.

28 Q. There is not much traffic?

29 A. There is not much traffic.

30 Q. So really your solution is 5 to 7%?



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A. It is true that in accordance with the
scale there is so much taper during that low range that
--

Q. So it will not change too much?

A. Yes, that is correct.

COMMISSIONER GOBEIL: I think that is all I
have, thank you.

BY COMMISSIONER MANN:

Q. Some very short questions, Dr. Little.
There have been many criticisms made of horizontal
percentage increases. Let me take one of them, first,
and that is a flat or horizontal percentage increase does
not take into account the ability of a commodity to stand
an increase; and what I would like to ask you is does your
formula do that?



1
2 A. I would have to say no. It takes little
3 or no more consideration than the flat percentage method;
4 both are not very good on this. I answered that before
5 by saying that if we do find a situation such as this
6 might arise you will then change the classification.

7 Q. Yes, another criticism, of course, and this
8 I suppose if there was no order of magnitude around would
9 be two criticisms. The first one is that it is harder
10 on the long haul shipper than the short haul shipper and
11 your formula purports to remedy that to some extent.

12 A. To the extent that the long haul costs have
13 been increased as well as the short haul and naturally
14 to that extent if the situation would reverse itself it
15 would not.

16 Q. Periodically through your submission, Dr.
17 Little, you do say that this would be relief to the
18 short haul shipper. I cannot lay my finger on the
19 passage.

20 A. Relief to the short haul shipper. .

21 Q. Yes.

22 A. Not according to the assumed percentages
23 of increase. It would add, as a matter of fact in the
24 examples used relief to the long distance shipper
25 because his rates would not be increased as much as the
26 rates increased percentage-wise for the short distance
27 shipper.

28 Q. I had it marked somewhere -- yes,
29 inferentially I suppose it appears in this passage on
30 page 24 where you are talking of the flat percentage



1
2 increase and you say:

3 "The cumulative ill effect on long distance
4 shippers and in favour of short distance
5 shippers could result in considerable long
6 run damage to the Canadian national production
7 and distribution system through the application
8 of horizontal rate increases."

9 Inferentially, certainly there is the thought
10 expressed that the flat percentage increase is detrimental
11 to the long haul shipper, your alternative proposal which
12 is meant to ameliorate the flat rate percentage increase
13 and, therefore, I suppose be of benefit to the long haul
14 shipper?

15 A. Yes , and may I add at this time that it
16 seems to me uniquely and peculiarly true that this
17 business of transportation which is a place utility on
18 a movement from place to place and as times moves on
19 and improvements are made we are finding here in fact
20 the situation in which we are not giving advantage to
21 the improvements that are made. The principle function
22 of improvement in transportation is to encourage long
23 distant shipments in essence to a certain extent to
24 provide for movements over great distance and this does
25 not come about under a flat percentage method. It is
26 destroying the very thing that innovations and
27 improvements in the transportation system are supposed
28 to create.

29 Q. Given certain revenue requirements if any
30 scheme alternative to a flat percentage increase resulted



1
2 in the imposition of higher rates on short haul or
3 minimum lengths shipments, would it in your opinion
4 increase the range or the competitive area of railway
5 movements.

6 A. By "area" do you mean the mileage distance?

7 Q. No, the types of traffic that would become
8 subject to competition.

9 A. There are so many complex things that will
10 happen. I might try to bring it down that certainly
11 where the rail carriers are getting into trouble on a
12 long distance haul this would give relief to that
13 situation. This would give them an opportunity to retain
14 long distance transportation which they are losing. This
15 seems to be the very area of natural glory, so to speak,
16 and they are losing it. They would retain it and it
17 would give them a chance to hold it. When we get into
18 the short distance movement there is no doubt that it
19 would put the finger upon whether or not the rate which
20 would come out of the formula can be in fact applied and
21 the answer to this is if it cannot be applied and it
22 seems desirable to the railroads and to the government
23 that this movement should change, this does not mean
24 our formula we are working on -- what we hope we are
25 going to do is handle it separately.

26 COMMISSIONER MANN: I think those are all
27 the questions I have, thank you.

28 COMMISSIONER GOBEIL: I would like to ask just
29 one more question. Mr. Mann put this very technically
30 and I did not know the word when he said "flat increase".



1
2 To make it clear, what you suggest is that if the line
3 haul costs will simply be a flat increase above 1,200
4 miles, is it not because it will always be 5%?

5 THE WITNESS: It will not always be this way.
6 The 5% just happens to work out that way with the
7 present scale.

8 COMMISSIONER GOBEIL: No, but it will not
9 change, it will not be 4%?

10 THE WITNESS: No.

11 COMMISSIONER GOBEIL: It will always remain
12 5%?

13 THE WITNESS: It will never be less than the
14 lesser of the two increases of cost of terminal or line
15 haul, it can never be less.

16 RE-EXAMINATION BY MR. FRAWLEY:
17

18 Q. Dr. Little, did I understand you correctly
19 when I thought you told Commissioner Gobeil that the
20 problems that you saw had their root in the scale that was
21 prescribed by the Board of Transport Commissioners and
22 which became effective on the 1st of March, 1955.

23 A. Yes.

24 Q. All I want to say to the Board and
25 Commissioner Gobeil is that that was a proceeding that
26 lasted for, I think, two years and if you will read the
27 very interesting Judgment of the Board, a fifty page
28 Judgment, you will find on page 50, that the Board had
29 four scales presented to them. These scales are all
30 listed on page 50 in this report. The Board had the



1
2 C.N.R. scale proposed, the proposed Canadian Pacific
3 railway scale, the proposal of the Alberta scale and the
4 Board's own interim scale. They had those four scales
5 and they came out finally with a scale which appears
6 as appendix "B" which was the scale which was put into
7 effect. This was a compromise scale, there is no doubt
8 about that. Our own Alberta scale was a compromise
9 between the railway scales. The Board at page 31 recites
10 Professor Williams that we heard here who was brought up
11 by the province of Alberta to give evidence and he
12 reviewed all of the scales for the Board and his review,
13 his comment is all set out thoroughly by the Board. The
14 Commissioner who gave the Judgment is well known, Mr.
15 Knowles and he states it all. I say it was a compromise
16 and certainly it is not perfect. But, of course, it
17 has flat and steep spots. However, it was the scale
18 that the Board developed at that time and Mr. Little
19 has made a very interesting comment that that accounts
20 a great deal, probably wholly for the problems that he
21 saw confronting you. Mr. Little did nothing any more
22 than take the scale as he found it. I have no further
23 questions.

24 THE CHAIRMAN: Thank you.

25 THE WITNESS: Thank you, gentlemen.

26 THE CHAIRMAN: Monday morning we will have
27 the C.P.R.

28 MR. SINCLAIR: Yes, Mr. Roberts, Mr. Edsforth
29 and then Mr. Emerson and I will arrange to have all the
30 witnesses here so as one finishes the other one can step



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into the box.

--- Adjournment ---

House of Commons

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

106

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ERRATA

Volume 106

<u>Page</u>	<u>Line</u>	
17678	12	"it is a value of service" should be "it is value of service".
17678	13	"competition" should be "competitive"
	14	"Increased basis of cost" should be "Increase based on cost".
17681	26	"Composition" should be "competition".
17696	20	"Meet" should be "move".
17698	24	"substitute" should be "subsequent".
17702	3	"You say" should be "Let us say".
17719	18	Delete "not".
17728	22	"comparative" should be "competitive".
17737	25	"want" should be "watch".
	28	"and" should be "all".
17753	7	"on truck" should be "off track".
17760	22	Should read "...the sulphur. But the coal".
17771	26	Delete "competitive rates".
17786	25	Delete "selected".



I N D E X

Page No.

ROBERTS, J.M.

Direct examination
By Mr. Sinclair

17604

Cross-examination
By Mr. Cooper
By Mr. Brazier

17671
17719

E X H I B I T S

162 C.P.R.: Carload traffic via C.P.R.
Comparison of revenue as result of
17% freight increase - taken from
waybills reported for Board's 1%
study - December, 1958 to November,
1959 (Excluding traffic at United
States related rates.)

17604



ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 24th day of October, 1960.

COMMISSION

Mr. M. A. MacPherson, Q.C.	Chairman
Mr. H. Anscomb	Member
Mr. A. H. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
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Mr. A. G. Cooper, Q.C.	
Mr. G. S. Cumming	
Mr. H. W. Ellicott	Adviser

Mr. F. W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary



Ottawa, Ontario,
Monday,
October 24, 1960.

--- On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please.

MR. SINCLAIR: Mr. Chairman and Commissioners,
as arranged, the witness is Mr. J.M. Roberts, and I would
ask him to please take the stand.

As the Commission knows, Mr. Roberts appeared
before in January last for some days. His qualifications
setting out his background and experience will be found
in the transcript for January 20, 1960, under volume 23,
and being pages 3257 through 3259. In June last, the
Commission directed Canadian Pacific to file on or before
September 15, the precis of evidence that would be heard
at its fall sittings of this Commission. Pursuant to
that direction, Mr. Roberts' precis was prepared and
filed and handed to my friendson September 14, last.
When the Commission issued its directive as to dates in
June last, it made certain other directives as to the
filing of material by other parties. Because of
circumstances in certain instances this material was not
forthcoming until later. As a result, Mr. Roberts has
dealt in his precis with the British Columbia submission,
and he also has covered the outline of the Manitoba
submission, but the detail and further expansion of that
submission and the changes that were brought about by
that expansion were not a part of Mr. Roberts' precis.

I was faced with the decision as to whether,



1
2 in light of these circumstances, I would ask Mr. Roberts
3 to continue and to handle the various other submissions,
4 including the Maritimes, Saskatchewan, Alberta, and the
5 expansion of Manitoba. I made the decision, sir, that I
6 would call another witness and that Mr. Roberts would not
7 deal with these matters in detail or in their overall
8 impact.

9 THE CHAIRMAN: That is what?

10 MR. SINCLAIR: Well, the various evidence
11 called by Mr. Frawley, the parity problem as advanced by
12 the Maritimes, the western Maritimes freight rates ~~act~~
13 proposal of Saskatchewan, the expansion of the 50-50
14 split -- or, I should not call it a 50-50 split; it is
15 the split of Manitoba, that is the horizontal flat
16 increases per hundredweight, and interline Lake Junction
17 points, and various other matters dealt with in the
18 Manitoba submission.

19 THE CHAIRMAN: All of which will be dealt
20 with by another witness?

21 MR. SINCLAIR: Yes, by the next witness, Mr.
22 Edsforth. The reason I bring this to the attention of
23 the Commission is this, that while I am not in any way
24 suggesting to my friends that if they have any questions
25 in these areas they should not be put to him -- that is,
26 of course, up to them -- Mr. Roberts, in so far as his
27 experience and knowledge of the detail of these proposals
28 will enable him to answer, he will do so. But I have
29 asked Mr. Edsforth to be responsible for the analysis
30 of those submissions.



1
2 MR. BRAZIER: Mr. Chairman, before my friend
3 continues, I do suggest that the evidence in chief of Mr.
4 Edsforth be placed on the record at the earliest possible
5 date in order that we will have time to consider it.

6 This, as Mr. Sinclair has outlined, Mr.
7 Edsforth is going to cover a very considerable amount of
8 the submissions made by the provinces. While we have had
9 Mr. Sinclair's other briefs for some weeks now, and have
10 been able to consider and study them, what Mr. Edsforth
11 is going to say is going to be all new.

12 THE CHAIRMAN: I understand that Mr. Roberts
13 will deal with yours.

14 MR. BRAZIER: Yes, but also some of the other
15 subjects in which I may be interested, and I would
16 suggest to my learned friend that he have Mr. Edsforth's
17 evidence in chief put on the record at the earliest
18 possible date so that we will have ample opportunity of
19 considering it before cross-examination.

20 THE CHAIRMAN: Well, we must get through and
21 cross-examine Mr. Roberts first.

22 MR. SINCLAIR: As soon as Mr. Roberts has
23 completed his evidence, I have spoken to some of my
24 friends, and I recognize the situation. I have spoken
25 to my friend, Mr. Cooper, and the suggestion we would
26 make to the Commission is this, that when Mr. Roberts'
27 evidence in chief, which is already filed, plus the
28 cross-examination is completed, I will call Mr. Edsforth
29 and put it on the record by asking his comments in
30 certain areas. When that was completed, he would stand



1
2 down. Then, we would have Mr. Emerson's, and Mr.
3 Emerson could then have his cross-examination completed.
4 And, at that time, Mr. Edsforth would come back. That
5 should give my friends a number of days. Is that
6 satisfactory?

7 THE CHAIRMAN: That should be satisfactory.

8 MR. BRAZIER: My colleagues are probably more
9 affected than I am.

10 MR. FRAWLEY: Mr. Chairman, I support my friend,
11 Mr. Brazier. I may have misunderstood on Friday. I
12 thought Mr. Sinclair would put Mr. Edsforth's in and we
13 would have two pieces of evidence: Mr. Roberts' in chief,
14 represented by his brief, and Mr. Edsforth's whose
15 evidence was not committed to a brief, and then we would
16 proceed to cross-examination from that point.

17 THE CHAIRMAN: The proposal he offers, that Mr.
18 Emerson intervene, would settle the matter.

19 MR. SINCLAIR: What I suggested was this: that
20 Mr. Roberts' would be completed, then I would call Mr.
21 Edsforth, put his evidence in chief in, stand him down,
22 and then put in Mr. Emerson, and then recall Mr. Edsforth
23 for cross-examination, on the completion of the cross-
24 examination of Mr. Emerson.

25 MR. FRAWLEY: One more thing, please, Mr.
26 Chairman. I was not here from the beginning this morning,
27 unfortunately. Do I understand Mr. Sinclair to say that
28 Mr. Roberts is now going to deal with some matters which
29 are not covered by his brief?

30 MR. SINCLAIR: No. I merely said -- I was not,



1
2 in view of my remarks, trying to limit my friends' cross-
3 examination of Mr. Roberts. If they want to ask him
4 questions concerning any of these items, they are free
5 to do so. All I was saying was that as to the detail of
6 any of the analysis that was made, I have asked Mr.
7 Edsforth to do that. I was just informing you of the
8 decision I had made.

9 THE CHAIRMAN: For instance, Mr. Edsforth will
10 analyse Dr. Williams and Mr. Roberts ----

11 MR. SINCLAIR: I wish to add this, first, that
12 in certain respects; in other respects, on account of the
13 time element involved, that this, of course, a disability,
14 possibly, to my friends, but I cannot help it, because
15 some of this evidence was only completed on Friday, as
16 you know, and that the only way some of these areas can
17 be dealt with will be in my submissions to the Commission
18 when I would analyse them in argument and put the
19 submissions of Canadian Pacific in regard to them. On
20 account of the time element, it is necessary. Therefore,
21 my friends --- well, they cannot cross-examine me.

22 MR. FRAWLEY: Now that the Chairman has
23 mentioned the matter, I am grateful to the Chairman. If
24 Mr. Edsforth is going to analyse critically the evidence
25 of Dr. Williams, then that is a matter of concern to
26 both Mr. Mauro and myself. If he is going to analyse
27 critically the evidence of Dr. Roberts and Dr. Little,
28 that is a matter of concern to me.

29 Now, the last thing I would want would be to
30 add any more fuel to the flames in this Commission and



1
2 to cause any more turmoil. I may as well put myself on
3 record that I do not propose; I cannot cross-examine Mr.
4 Edsforth on his analysis of Dr. Roberts and Dr. Little.

5 THE CHAIRMAN: We will cross that bridge when
6 we come to it.

7 MR. SINCLAIR: I am sure the manner in which
8 Mr. Edsforth analysed it will be so clear it cannot
9 result in any problem.

10 MR. FRAWLEY: It may result in no cross-
11 examination by me, but that is something we may have to
12 put up with, that's all.

13 MR. SINCLAIR: Attached to the precis of Mr.
14 Roberts' testimony was a numbered statement, 310. I have
15 had a request for certain particulars in regard to this
16 from my friend, Mr. Smith. This is, of course, in
17 preparation and I informed him this morning that
18 unfortunately had not been completed, but we would as
19 soon as we could comply with his request. I must say he
20 very kindly restricted its scope to try to make it
21 reasonable to handle, but it has taken quite a bit of
22 work. We have had men on it for some days, and my friend
23 is not objecting to it not being here this morning, I
24 take it?

25 MR. SMITH: That is quite all right.

26 THE CHAIRMAN: I am sure you will find him
27 quite cooperative.
28
29
30



J.M. ROBERTS, called

DIRECT EXAMINATION BY MR. SINCLAIR:

Q. In checking statement 310, Mr. Roberts discovered that an error had been made in the compilation that does not materially affect it, but it does require a revision to be made. I would show you a document, Mr. Roberts, entitled, and you will note that this entitlement is somewhat different from the one on the brief which shows where the error crept in:

"Canadian Pacific Railway.

Carload traffic via Canadian Pacific Railway-
comparison of revenue as result of 17% freight
increase-Taken from waybills reported for
Board's 1% study-December, 1958, to November,
1959, Inclusive - (Excluding traffic at United
States related rates)."

Now, I would ask to have that, with the
permission of the Commission, filed as an exhibit.

--- EXHIBIT NO. 162

Canadian Pacific Railway

Carload Traffic Via Canadian Pacific
Railway - Comparison of revenue as
result of 17% freight increase - Taken
from waybills reported for Board's 1%
study - December, 1958 to November,
1959, inclusive - (Excluding traffic
at United States related rates).

MR. SINCLAIR: Q. Looking at exhibit 162,
Mr. Roberts, what was the reason for the change that



1
2 resulted in the revision from the statement comparable
3 to exhibit 162 which was attached to your precis of
4 evidence?

5 A. The key to the change, Mr. Sinclair, lies
6 in the addition of the words which are in brackets,
7 "excluding traffic at United States related rates".

8 Now, I found this later in checking over the
9 statement myself, various movements included in it, and
10 concluded, of course, that it was not fair to include
11 that type of traffic because it had not received the
12 17% increase. So that, therefore, the revised statement
13 is exclusive of any traffic which moves at related rates
14 to those within the United States, even movement within
15 Canada, such as lumber from British Columbia to eastern
16 Canada.

17 Q. So this revision arises from excluding
18 from the analysis traffic moving wholly within Canada
19 but at rates related to United States rates?

20 A. That is correct, sir.

21 Q. This would include fruit from British
22 Columbia; lumber; and in certain of its movements some
23 port related traffic?

24 A. That is correct.

25 Q. Now, Mr. Roberts, you have before you a
26 precis entitled "Canadian Pacific Railway - memorandum
27 in respect of, I, Rate changes in general revenue cases;
28 II, Other Freight Traffic Matters".

29 In relation to this precis, Mr. Roberts, and
30 the exhibit 162, has this been prepared by you or under



1
2 your direction, and have you checked it?

3 A. I have, sir. It was, and I have, sir.

4 Q. Are the facts therein set out correct to
5 the best of your knowledge and belief?

6 A. They are.

7 Q. Are the opinions therein expressed your
8 opinions based on your knowledge and experience,
9 including your practical experience as a rate-man of
10 some 25 years?

11 A. They are, sir.

12 Q. Dealing with the Canadian freight rate
13 structure?

14 A. That is correct.

15 Canadian Pacific Railway

16 Memorandum in Respect of:

17 I Rate Changes in General Revenue Cases

18 II Other Freight Traffic Matters

19 1 - Rate Changes in General Revenue Cases

20
21 General revenue cases, tied as they are with
22 a reasonable level of net rail income, are based on the
23 fact that financially sound railways are essential to
24 Canada. As Mr. Crump stated to this Commission,
25 notwithstanding the growth in other media of transport,
26 railways still provide the most efficient and economical
27 method of moving general freight by land over
28 substantial distances. It has long been recognized that
29 only when railways are financially sound are they able to
30



1
2 furnish efficient service and adequate facilities for
3 the handling of traffic and to meet the necessities
4 of the commerce of the country.

5 The Board of Transport Commissioners fix from
6 time to time the level of net rail earnings for
7 Canadian Pacific. The Board has used Canadian Pacific
8 as the yardstick in general revenue cases but has also
9 taken into account Canadian National Railways.
10 Canadian Pacific and Canadian National together provide
11 about 90% of rail transportation in Canada.

12 General revenue cases have been heard from
13 time to time since 1918. In the 1920's there were
14 general reductions, but since World War II, all general
15 revenue cases involved increases. Historically, general
16 revenue cases authorized percentage changes in rates.
17 There have been some exceptions but these have been few.
18 There is one exception that has always been made, that
19 is, the rates on coal and coke which have been dealt
20 with on a cents-per-ton basis.

21 Senior officers of Canadian Pacific have
22 stated to the Commission that the railway is both
23 labour heavy and capital heavy. It maintains its own
24 roadbed as well as its equipment and facilities.
25 Accordingly, increases in wages and material prices have
26 a tremendous effect on railway net earnings at any
27 given general rate level. In the same way increases in
28 cost of money and income taxes have a most significant
29 reaction upon the adequacy of the general rate level.
30 General revenue cases therefore, arise when there has



1
2 been a marked change in wage levels, material prices,
3 income taxes or cost of money.

4 In all the post-war general increases,
5 increased wage rates were a factor. In the 9% increase
6 of 1952, and the 17% increase of 1953, they were the
7 only factor. The impact of a wage increase is immediate
8 and in addition, many of the wage increases involved
9 substantial retroactive features and fringe benefits.
10 This means general rate adjustments to meet increased
11 costs must be dealt with in the most expeditious manner
12 possible. In the early post-war cases, there were long
13 delays before relief was granted and this was the
14 subject of complaint by the railway companies to the
15 Turgeon Royal Commission. This complaint resulted in
16 the following conclusion by that Commission:-

17 "It is necessary in the public interest that
18 the Board should proceed with the utmost
19 possible expedition when dealing with general
20 revenue applications, whether made by the
21 railways for increases or by the shippers for
22 reductions in rates.

23 These applications are always made having
24 regard to conditions existing at the time. If
25 their determination is allowed to drag over a
26 long period of months or even years, there is
27 a probability of irreparable injury being
28 done to those concerned. In the long run
29 nobody benefits from such a state of affairs."

30 (Turgeon Report, page 71)



1
2 In the years after 1950, the Board gave
3 weight to this conclusion and the expeditious handling
4 of cases was also assisted by the development of
5 improved procedures and the greater knowledge of all
6 parties as to the issues involved.

7 In all of the post-war revenue cases, the
8 horizontal percentage method has been applied. It must
9 be remembered that in a general revenue case, the
10 application of the railways is for authority to increase
11 all rates equitably insofar as the law and traffic
12 conditions permit. The basic freight rate structure
13 upon which the increase is to be applied is one that is
14 deemed to be just and reasonable. This is so because
15 individual shippers raise for consideration the level of
16 individual rates which they believe to be unfair or
17 which present problems in reaching markets or moving
18 traffic freely. The representations of shippers are
19 thoroughly reviewed by railway traffic officers, and
20 where, after investigation and discussion, adjustments
21 are necessary, these are made. If, in the view of
22 traffic officers, shipper representations do not
23 warrant adjustments being made, then the shipper is
24 free to take the matter up with the Board. This may
25 be done either by informal discussion with members of
26 the Board or its traffic officers, or may be initiated
27 by the filing of a formal complaint which the railway
28 must answer. If the Board believes that the complaint
29 makes out a case sufficient for a hearing, this takes
30 place and both sides are given full opportunity to present
their position.



1
2 Undoubtedly, increased freight rates are an
3 additional cost which must be met in selling prices, or
4 in reduced profits to producers or manufacturers.
5 However, it should be emphasized that they are a
6 different than any other increase in cost such as an
7 increase in wages or in materials, or an increase in
8 any other element of the cost of production and sales.
9 It also must be realized that increased costs, or
10 whatever nature, can change market patterns. A shipper
11 who at a given level of wages in a factory was able to
12 reach out and compete with higher cost manufacturers
13 located closer to a market, can be driven out of that
14 market by an increase in his wage costs. Nevertheless,
15 this happens. Equally, it happens when transportation
16 costs increase. In view of representations that are
17 made regarding freight rates, one sometimes wonders
18 if the only cost that affects the ability of goods to
19 reach markets is transportation costs. It must be
20 recognized that freight rates, to be just and reasonable,
21 should not be used to offset geographic advantages or
22 disadvantages of any given producer or area. Nothing
23 is clearer than that the jurisdiction of the Board of
24 Transport Commissioners is not that of an economic
25 planning board. Obviously, if it was to be an economic
26 planning board, it would not only have to control
27 transportation costs, but all other costs that are
28 elements in the sale price of goods.

29 The Canadian freight rate structure is
30 complex. This is not surprising in view of the fact



1
2 that it meets numerous complex situations which arise
3 from moving thousands of different articles covering a
4 wide range of transportation characteristics and value
5 between thousands of points. It is possible,
6 theoretically, to evolve a simple freight rate structure;
7 for example, that all goods, regardless of their
8 transportation characteristics or value, would move at
9 the same rate per mile. If it does not cost any more
10 to move a car of refrigerators than it does a car of
11 sand, why have a classification and various kinds of
12 rates? Why have competitive rates? Why have class
13 rates, commodity rates, or special arrangements tariffs?

14 A freight rate structure which would charge
15 all goods at the same rate per mile, irrespective of
16 their transportation characteristics or value, would
17 have only one thing to commend it and that is that it
18 would be simple; but at the same time, it would be
19 completely unworkable and would adversely affect
20 commerce and make business in this country impossible.

21 A freight rate structure must be realistic.
22 The test of its realism is that it moves traffic freely.
23 The existing Canadian freight rate structure has been
24 much maligned. It has been termed a hopeless,
25 complicated muddle which no one understands. Those who
26 make such statements are obviously not acquainted with
27 it, and do not properly understand the principles on
28 which it is based.

29 Freight rates in Canada are based on two
30 underlying principles: variable cost of service



1
2 performed by the railway, and the value of the service
3 to the shipper. The variable cost is, of course, the
4 floor below which any rate must not be made, but the
5 value of service to the shipper can and does vary
6 greatly, depending on a number of factors. These have
7 already been explained to the Commission and it is only
8 necessary to state here that as there is a great
9 variation in the value of goods carried, so also is
10 there a variation in the ability of such goods to pay
11 transportation charges and in the value of the
12 transportation service to the shipper of the goods.
13 Thus, all goods cannot pay the same proportion over
14 variable cost, as total transportation charges can
15 affect the extent to which it would be economical to
16 move them.

17 The distance over which goods are carried has
18 a direct bearing on the rate which can and must be
19 charged for the service. The length of the haul
20 obviously has a direct effect on the variable cost of
21 the service performed. It also has an effect on the
22 ability of most goods to pay transportation charges.

23 Other factors which influence rate levels
24 include the extent to which competition from other
25 forms of transportation or market competition from
26 outside the country are prevalent.

27 Thus, it will be seen there are a number of
28 factors which determine the level of rates for
29 different commodities, for different lengths of haul
30 and for different circumstances. The underlying



1
2 principle has always been to develop a structure of
3 rates which will permit the greatest volume of goods
4 to move freely and maximize railway net revenue.
5 Adjustments in the freight rate structure are made to
6 carry out this principle and in this way meet the
7 necessities of shippers.

8 The impression that the freight rate structure
9 is a rigid structure which moves only at the time of
10 general revenue cases is completely wrong. In the first
11 six months of 1960, for example, there were 2,917
12 tariff item changes and one tariff item can cover many
13 rates. These items involve increases in rates, changes
14 in minimum weights, decreases in rates, and introduction
15 of competitive rates or agreed charges.

16 Some of these changes were initiated by the
17 railway; others resulted from representations made by
18 shippers. Some were forced by competition from other
19 transport media, and some were to enable Canadian
20 shippers to meet import competition from other countries.

21 Undoubtedly, the railways have some dissatisfied
22 customers. Customers who have not been able to make
23 out a case with the railways or before the Board for
24 what they want sometimes become very vocal, but I am
25 sure the Commission realizes that of the thousands of
26 shippers that are served every day by the railways,
27 by far the large majority are satisfied, even though
28 they might wish that transportation costs were lower,
29 just as they might wish the taxes were lower.

30 The method to be applied in general revenue



cases must meet the following tests:-

- (a) It must create the least possible disturbance to the basic rate structure.
- (b) It must be practical.

It must not involve individual rate analyses or detailed cost investigations. It has to be capable of being implemented by simple tariff action. It must be capable of being determined expeditiously.

- (c) It must be fair to shippers and railways alike.

For shippers, it must not be an attempt to offset economic or geographic advantages or disadvantages. It must not favour a shipper of one commodity over the shipper of a competing product. It must recognize the forces of competition. For the railways, it must produce revenues sufficient to keep them financially sound and must do so promptly. It must not attempt to maintain rate differences unrelated to competitive rate relationships. Fundamental to the freight rate structure is the fact that rate differences exist and these are caused by a number of factors as I have indicated earlier. Because so many people have said that a general revenue increase should not disturb differences in rates, I think I should emphasize that in meeting increased costs, the railways are no different than a department store. In a department store, various commodities are sold at various amounts over cost. If the wage costs in the department store go up necessitating increase in prices it is, of course,



1
2 obvious that the commodity that is being sold at a
3 mark-up of 100%, can take, in absolute terms, more of
4 a price increase than the commodity of equal cost which,
5 previous to the increase, could only be sold at a mark-
6 up of 50%.

7 (d) While changes in cost of transportation
8 are the basic reason for a general
9 revenue case, the method to be used
10 should not be an attempt to associate
11 the increased cost with the cost involved
12 in the movement of individual segments
13 of traffic. This is basic because of
14 value of service and competitive
15 considerations.

16 To apply an increase so that the amount of
17 the increase would be specifically related to cost
18 factors in individual rates, would require that each
19 rate or class of rates would have to be individually
20 examined and both the variable cost of handling the
21 traffic and the contribution over variable cost
22 determined. The cost factors which were subject to
23 increase would then have to be separated (for example,
24 the wage content in the cost) and then the amount of
25 increase in the wages and the other cost factors
26 involved determined and applied to each of the cost
27 elements. Having determined these amounts, then each
28 rate or class of rates would have to be increased in
29 accordance with the increase in the cost elements
30 associated with the rate.



1
2 Unless the entire rate structure was based
3 strictly on cost, that is, that each rate made exactly
4 the same contribution over variable cost, this would
5 obviously mean that there would be a great variation in
6 the amount of the increase applied to each individual rate
7 or group of rates, and there would be no uniform pattern.
8 That is to say, the percentage of increase would vary
9 greatly as between individual rates or groups of rates.

10 Under the Canadian freight rate structure,
11 there is a wide variation in the contribution over
12 variable cost made by different rates. This has already
13 been explained and the reasons for it fully discussed.
14 As the contribution over variable cost varies so widely,
15 depending upon the ability of the traffic to pay
16 transportation charges and competitive factors, it
17 follows that the cost elements included in the
18 contribution must also vary, and therefore, the
19 increases in these cost elements would not be the same
20 in each case. The result of this would be an even
21 greater variation in the increases applied.

22 If, as has been proposed to the Commission,
23 the Canadian freight rate structure were to be revised
24 to be more directly related to cost than at present,
25 although not solely so, the situation would still be
26 complex. Even under the British Columbia proposals, it
27 was not suggested that each rate would make exactly
28 the same contribution over variable cost. In the
29 case of so-called "captive" traffic under the British
30 Columbia proposal, the measure of the rate would be



1
2 limited to the full cost as a ceiling, that is,
3 variable cost plus a full contribution to constant
4 costs except under certain circumstances when a higher
5 rate could be charged.

6 In "non-captive" traffic, the influences of
7 competition would determine the contribution any given
8 rate would make over variable cost. Some rates would
9 contribute less than fully distributed costs and some
10 more.

11 Even assuming that all of the so-called
12 "captive" traffic could pay full costs and still continue
13 to move freely, which is certainly not the case, it
14 would follow that a cost oriented method of applying
15 a general rate increase would fall unevenly on the
16 entire rate structure. The "captive" traffic might
17 bear a more or less uniform increase, varying only as
18 to the cost elements upon which the rates were based and
19 the continuing ability of the traffic to move. The
20 "non-captive" traffic would be subject to a wide range
21 of increase, depending on the forces of competition.
22 The extent to which the "non-captive" traffic was
23 found unable to bear its full share of the increase,
24 again because of competitive conditions, would
25 invariably be reflected in the need for further
26 increases on the "captive" traffic. In other words,
27 that traffic would have to bear the share of increased
28 costs which could not be obtained from the "non-
29 captive" traffic and so the ceiling of variable cost,
30 plus full contribution to constant cost on the



"captive" traffic, would be exceeded.

I have dealt so far only with the results that would follow from an attempt to apply a fully cost oriented method of increasing rates in a general revenue case, assuming that such a method was feasible. This assumption requires some examination.

The physical job of analyzing each rate or group of rates to determine the variable cost of handling the traffic which it moves would be an almost insuperable task, bearing in mind the thousands of different commodities that are handled and the millions of rates that are in effect. Even if it were found possible to do this work, and which would require probably some years of effort, much of the information would be out of date and of no value by the time the survey was completed. Freight rates are not static. They are subject to ever constant change and adjustment as the economy of the country and the needs of the shippers demand. Neither are costs static. They change from time to time, depending on the changes in the various cost elements that are included in railway operation. But if it were possible to arrive at some satisfactory or reasonable satisfactory conclusion with respect to the variable cost of handling each individual unit of traffic, and the contribution over variable cost that each rate makes, and so calculate the amount of increase which each rate should bear, there would then remain the task of publishing the new rates. This would involve the



1
2 re-publishing of every freight tariff issued by the
3 railways. There is no other way in which it could
4 be done. The Commission may be aware of the voluminous
5 nature of freight rate tariffs in Canada, but so that
6 some idea may be obtained of what is involved, Canadian
7 Pacific alone publishes between stations in Canada some
8 10,372 pages of freight tariffs, many pages containing
9 over 100 rates.

10 Under such a complex method of determining
11 the increase for every rate or class of rate and of
12 getting it into effect, which I have just described,
13 it can readily be seen that the railways' financial
14 position would be very precarious indeed long before
15 the additional revenue from the general freight rate
16 increase could be obtained.

17 A general revenue increase should be applied
18 to rates insofar as law and traffic factors permit.
19 Under the Canadian freight rate structure, by law, the
20 rates for the largest single transportation job the
21 railways perform - the movement of grain to export
22 positions in western Canada - is beyond the power of
23 the railways and the Board to adjust to meet changing
24 conditions and cost of transportation as may from time
25 to time arise. No other rate in the whole freight
26 rate structure is in that position. All other rates
27 are changed from time to time as changing conditions
28 and costs of transportation require. However, all
29 of these changes cannot be made in a general revenue
30 case. For example, to allow traffic to move freely



1
2 in competition with American producers, some rates are
3 adjusted at the same time as adjustments are made in
4 the United States. However, when these adjustments
5 do not allow the rates in question to be maintained
6 at a level that contributes more than the variable
7 cost of moving the traffic, individual adjustments
8 are made. Another example is agreed charges which do
9 not contain an escalator clause, or which have not been
10 in effect for sufficient time for the escalator clause
11 to become effective. In these cases, the railways make
12 individual adjustments as soon as the contract permits,
13 or as soon as the traffic conditions which fix the
14 level of the agreed charge in the first place enable
15 a higher rate to be instituted. Again, of course, if
16 the level of the rate is not making a contribution over
17 variable cost and the traffic cannot be retained at a
18 higher rate the contract is terminated.

19 In regard to competitive rates, no set
20 pattern is adopted. Sometimes these rates are increased
21 at the same time as general increases. At other times,
22 a general across-the-board increase in these rates is
23 made in advance of a general revenue case. At other
24 times, the increase is made subsequent to the general
25 revenue case, and sometimes, adjustments are made
26 individually. Indeed, adjustments in these rates
27 individually are going on at all times as the competitive
28 forces change. At one time, there was a feeling by
29 some that the railways were not as aggressive in
30 increasing competitive rates as they might have been.



1
2 This feeling has largely, I think, disappeared. Some
3 years ago, criticisms of lack of aggressiveness on
4 the part of the railways were such that the Board
5 conducted a special investigation. The results of the
6 Board's Traffic Officer's analysis are set out in the
7 Judgment of the Board in the 17% Case of 1952.

8 A number of people attempt to divide freight
9 traffic between "captive" and "non-captive". This
10 type of approach is foreign to a practical traffic man.
11 People who attempt to make this distinction do so on
12 the assumption that some traffic is the particular and
13 exclusive preserve of the railways to exploit as they
14 will. This type of traffic doesnot exist. As the
15 Commission has been told, competition actual or potential
16 is all-pervasive. Then someone might ask "Why aren't
17 all rates competitive rates?" "Why do you have some
18 rates that are competitive and others that are normal?"
19 The answer to a practical traffic man is that much of
20 the traffic, for example, moving at class rates, is of
21 a type that, because of its transportation characteristics
22 (either weight in relation to bulk, or claims experience,
23 or size of shipment) is not within the cost area that
24 competing modes of transportation will meet, even though
25 such traffic may be high rated in relation to the
26 average revenue per ton mile of all traffic, or the
27 average revenue per ton mile of traffic moving on other
28 types of rates. In the commodity rate group which
29 includes commodity mileage scales and specific commodity
30 rates, I wish to emphasize that specific commodity rates



1
2 are sometimes set on the basis of competitive factors,
3 even though they are not marked competitive rates.
4 However, there is a large bulk of traffic moving at
5 non-competitive commodity rates not because there is
6 no other mode of transport than can carry that traffic,
7 but because no other mode of transport can carry it at
8 the low rates at which it is moved by rail.

9 The proportion of the railway traffic which
10 moves at class or commodity rates and is not marked
11 "competitive" for the reasons I have just given,
12 represents a larger proportion of the total traffic
13 in some areas of the country than in other areas of
14 the country. This does not mean, however, that in
15 general revenue cases, this traffic is being called
16 upon to bear an unfair burden or an unjust proportion
17 of the increase.

18 I have discussed some of the general
19 principles and considerations which must determine the
20 method to be applied in implementing changes in rates
21 arising from a general revenue case. I now propose to
22 discuss the various methods which have been suggested
23 in proceedings, bearing in mind the underlying
24 principles upon which the freight rate structure has
25 been developed in Canada, and the practical effect on
26 shippers and railways of the various methods suggested.
27 These methods are:-

28 Horizontal percentage increases

29 Horizontal percentage increases with hold
30 downs

Flat increases in cents per unit of traffic



Graduated percentage increases

50/50 Increase - horizontal percentage and
cents per unit of traffic.

I will discuss these in the order named.

Horizontal Percentage Increases

As I stated earlier, this is the method that has been applied in all the post-war revenue cases. In applying the method, Canadian Pacific estimates the amount of additional revenue required to result in a given level of permissive net rail income. Estimates are made on a constructive year basis, that is, by taking adjustments in rates which have taken place within the year of the application and constructing a revenue figure which will reflect such changes being applicable throughout the entire year. Similarly, for expenses, changes in labour and material costs and taxes which have taken place during the year are calculated on a full year basis. From the estimated revenues and expenses for the constructive year thus developed, the amount of the deficiency in net rail income is determined. A calculation is then made to show what a given percentage of increase applied to the various segments of traffic is estimated to produce. In these calculations weight is given to law and traffic factors as well as attrition and erosion of traffic which will follow from the application of the proposed increase. These factors are taken into account in the estimated revenues which would follow from the percentage increase proposed.



1
2 As I indicated earlier, there is one exception which
3 is coal and coke traffic where an increase in cents
4 per ton rather than a percentage increase is used.

5 When changing conditions or cost of
6 transportation bring about a need for additional
7 revenue, the necessity is to distribute that increase
8 as fairly as possible. By increasing all rates
9 proportionately insofar as law and traffic conditions
10 permit, the additional revenues which the railways are
11 to receive are applied evenly and the fundamental
12 factors which influenced the rate-making in the first
13 place are given due consideration. If problems arise,
14 individual shippers are able to raise them and have
15 them determined. For this reason, individual rate
16 problems should not be dealt with in a general revenue
17 case.

18 The application of the horizontal percentage
19 increase results in varying amounts of absolute increase
20 per 100 lbs. That is, a rate which has had to be made
21 on a relatively low basis in order to permit the
22 traffic to move or to enable the manufacturer to
23 find a market, or for any one of the many reasons that
24 influence rate making, by bearing its straight
25 percentage, is subject to a lower absolute increase per
26 100 lbs. than in the case of a commodity of much
27 higher value which experience has shown can and does
28 move freely and with ability to pay transportation
29 charges at a higher level or which moves longer
30 distances. This, it is claimed, creates distortions



1
2 and anomalies in the rate structure, disturbs rate
3 relationships and imposes an undue burden on
4 shippers whose goods must move for long distances.
5 It is further claimed that this method results in the
6 western provinces and the Maritime provinces and long
7 haul shippers generally paying an unduly large
8 proportion of the additional revenue required by the
9 railways, leaving Ontario and Quebec in a preferred
10 position because of relatively short haul traffic and
11 the influence of competition in this area.

12 These statements are obviously made with a
13 lack of understanding of the freight rate structure,
14 because, as I have said already, distance is a factor
15 in rate making. Obviously, rates cannot be made
16 without regard to distance because that is an
17 important factor in the cost of handling goods, but on
18 the other hand, in their rate making principles, the
19 railways have recognized that long hauls do present
20 some problems and they have tempered the effect of
21 distance by various means designed to overcome as much
22 as may be possible the effect of distance in the
23 rate charged. Rate taper is one method. The use of
24 arbitraries is another.

25 Rate taper is a principle of rate making
26 whereby terminal costs are reflected by reducing the
27 increment in the basic rate structure as the distance
28 increases. Arbitraries are fixed amounts per 100 lbs.
29 which are added to rates to or from a given basing
30 point in order to construct through rates.



1
2 In order to test the actual effect of a
3 horizontal percentage increase in freight rates on
4 traffic moving to and from the various regions of Canada,
5 a record was kept of a sample of all traffic moving from
6 December 1st, 1958, (when the increase of 17% became
7 effective) to November 30th, 1959. The sample used was
8 the 1% sample of waybills submitted by Canadian Pacific
9 to the Board of Transport Commissioners for its Waybill
10 study.

11 Attached is Statement 310 showing the results
12 of that test. As will be observed, the traffic has been
13 broken down into three categories, that is, traffic
14 moving at so-called "normal" rates, traffic moving at
15 competitive rates, and traffic moving at agreed charge
16 rates. The results of this study are significant. As
17 will be noted, a record was made of the revenue actually
18 obtained by Canadian Pacific at the rates in effect at
19 the time of movement, including the 17% increase. This
20 revenue was compared with the revenue that would have
21 been obtained at the rates in effect prior to the
22 increase. It should be noted that traffic which moved
23 after December 1st, 1958, at a competitive rate, was
24 included in the competitive category, even though the
25 rate in effect on such traffic prior to the increase
26 was a normal rate. Similarly, with agreed charges, the
27 traffic category has been based on the type of rate
28 at which the traffic actually moved after November 30th,
29 1958.

30 I would direct the Commission's attention to



1
2 the summary appearing at the foot of the statement
3 comprising the traffic moving at all three types of
4 rates. It will be observed that traffic within the
5 Maritime provinces paid an average total increase of
6 8.6% as compared with traffic moving within Ontario
7 and Quebec of 11%, and within western Canada of 11.1%.

8 Traffic moving from the Maritimes to Ontario
9 and Quebec paid an average increase of 7.4% from Ontario
10 and Quebec to the Maritimes, of 11.3%, and from the west
11 to the Maritimes, of 0.4%.

12 Traffic moving from the Maritimes to the west
13 paid an average increase of 12.4%, from Ontario and
14 Quebec to the west, of 8.8%, and from the west to Ontario-
15 Quebec, of 7.8%.

16 It will be seen from the foregoing comparisons
17 that the percentage of increase paid by the various
18 regions on the average was approximately the same. In
19 other words, the increase within the west was only
20 slightly greater than within Ontario and Quebec,
21 notwithstanding the claim which has so often been made
22 that Ontario and Quebec, in large measure, escape the
23 burden of a general increase. Also of significance is
24 the fact that the so-called long haul traffic, that is,
25 between the Ont.-Que. and the west, pays a lower relative
26 percentage of increase than traffic moving locally
27 within these regions.

28 The foregoing figures show the average
29 percentage of increase paid on the traffic that moves.
30 The statement also shows the total increase in dollars



1
2 and cents. In that respect, the traffic moving locally
3 within Ontario and Quebec, and within the west, made
4 the largest contributions, 30.5% within Ontario-Quebec
5 and 36% within western Canada.

6 The study demonstrates that the horizontal
7 percentage increase method does not impose an unfair or
8 unjust burden on any area. It also shows that traffic
9 moving within Ontario and Quebec does not escape the
10 impact of a general increase, but does, in fact,
11 contribute a very substantial part of it.

12 It is significant also to direct attention
13 to the fact that the percentages of increase and the
14 additional dollars of revenue as shown on Exhibit No.
15 162, reflect the revenue received by Canadian Pacific
16 and not charges paid by shippers. The actual charges
17 paid by the shippers would be less in total dollars
18 because of the Maritime Freight Rates Act, the East-
19 West Bridge Subsidy, and the Roll Back Subsidy. In
20 other words, this statement shows the effect of the
21 17% increase as if transportation subsidies were not in
22 effect.

23 The horizontal percentage increase method
24 meets the tests which I referred to earlier as
25 controlling the method to be applied in general revenue
26 cases. The hearing resulting in the 17% increase was
27 expeditious; the application was dated September 16,
28 1958; the hearing lasted four days; the judgment and
29 order of the Board of Transport Commissioners were
30 dated November 17, 1958; and an appeal to the Governor



1
2 General in Council was taken by the provinces on
3 November 18, 1958; the finding of the Governor General
4 in Council was made on November 26, 1958, and the rates
5 became effective on December 1, 1958. To implement
6 the increase it was only necessary for Canadian Pacific
7 to publish 178 tariff pages. Costly and time-consuming
8 individual rate analysis was not undertaken but where
9 this was necessary arising from representations of
10 shippers, it was done after the increase and only in
11 cases where specific problems made it necessary. The
12 study of the impact of the 17% increase on the various
13 areas of Canada and the result of the increase in the
14 various rate categories shows that it is fair to
15 shippers and areas. The study also shows that it has
16 kept in balance the basic rate structure and introduced
17 the least disturbance to it. Because the increases were
18 evenly applied insofar as law and traffic factors
19 permitted, the shipper of one commodity was not favoured
20 over the shipper of a competing product.

21 The result of the 17% increase of December 1,
22 1958, did not produce revenues which enabled Canadian
23 Pacific to maintain a reasonable level of net rail
24 earnings because of two reasons: first, adjustment in
25 the level of permissive net rail income was not dealt
26 with nor was the increase based on developing revenues
27 sufficient to provide a reasonable level of net rail
28 income. Both of these issues were to be determined in
29 the second hearing before the Board which was adjourned
30 because of the appointment of your Commission.



Horizontal Percentage Increases with Hold
Downs:

Horizontal percentage increase with hold
downs is a method whereby horizontal percentage in-
creases are restricted or arbitrarily imposing a maximum
increase in a given rate or class of rates, generally
a fixed amount in cents per unit of traffic. For
example, an increase of 10 per cent with a hold down
on livestock of 20 cents per 100 pounds, or another
example, an increase on sand and gravel of 10 per cent
with a hold down of 20 cents per ton.

A general increase with a hold down visualizes
that at some point, the contribution from the freight
rate increase on the commodity, to which the hold down
applies, remains at a fixed level, regardless of the
distance the traffic moves. The method of determining
the amount of the hold down has never been set up.
Neither has it ever been stated what method would be
adopted to select the commodities to which the hold down
would be applied.

It has loosely been said that hold downs
should be applied on long haul traffic but nobody has
ever defined long haul traffic; what is long haul traffic
to Saskatchewan could be short haul to Alberta, and what
is long haul to the Head of the Lakes could be short haul
to the whole of Western Canada, and what is long haul
on sand and gravel is extremely short haul on lumber.

Assuming that it was arbitrarily decided to
fix a maximum of a certain amount per hundred pounds on



1
2 all traffic, it would result in higher rated commodities
3 paying a lesser increase, distance considered, than
4 lower rated commodities. For example, the hold down,
5 and therefore the maximum increase on refrigerators would
6 come into play for relatively short hauls while that
7 on sand and gravel might never become effective. There
8 would be variations as to the length of haul and the
9 effect of the hold down on almost every commodity
10 handled.

11 In addition, this method would result in
12 some traffic that could take the full increase not doing
13 so, thus unfairly placing on other traffic an additional
14 burden. This would be so because the reduction through
15 the application of the hold down would have to be reflected
16 in a higher percentage of increase and all traffic
17 to which the hold down did not apply would have to pay
18 that higher percentage increase and thus provide the
19 revenue lost by not applying the increase proportionately
20 to all the traffic involved.

21 If instead of a maximum increase applicable
22 to all traffic, hold downs of varying amounts were
23 applied to different commodities, the more complex
24 problem of determining the commodities on which the
25 hold downs should be applied and the amount of the hold
26 down would have to be met. This would lead to end-
27 less controversy on the part of those shippers whose
28 commodities are not subject to a hold down, or where
29 the hold down was less than the amount being applied to
30 other commodities. Obviously, arbitrary judgment of



1
2 some kind would have to be employed and unfairness to
3 either the railways or the shippers could very well be
4 the result, but certainly numerous anomalous situations
5 would arise.

6 Following the recommendations of the Tuggeon
7 Royal Commission regarding the method of applying in-
8 creases in general revenue cases, the railways in 1951
9 proposed as an alternative to a horizontal percentage
10 increase a higher percentage increase with hold down
11 on a number of specific commodities. The Board in
12 dealing with this application (12% Case (1951) 68
13 C.R.T.C. 1 at 5) granted a general percentage increase
14 without hold downs but said:

15 "The Board is not disposed at this time to
16 give effect to the applicant's alternative
17 proposal for a 15% increase (on top of the
18 5% in Part I) with certain exceptions, and
19 suggests that the applicant should develop
20 and present to the Board, before the next
21 hearing of Part II, proposals more in con-
22 formity with the conclusions of the Royal
23 Commission on Transportation on the subject
24 of horizontal increases. The Provinces
25 which were represented at the hearing ob-
26 jected strongly to the applicant's alter-
27 native proposal."

28 In conformity with the direction of the
29 Board in the hearings later in 1951 which resulted in
30 the 17% Judgment of 1952 (68 C.R.T.C. 273) a substantial



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2 amount of evidence and argument was heard by the Board
3 on the question of hold downs and the commodities to
4 which these should be applied. The hold downs advanced
5 and considered by the Board in that case consisted of
6 commodities picked by the railways, one upon which
7 representations had been received by the railways
8 from the shippers and the Board in its Judgment added
9 another on its own motion. The railways made it
10 clear to the Board that they were not advocating
11 the method of the percentage increase with hold down
12 but were doing so to conform with the recommendations
13 of the Turgeon Royal Commission and the directive of
14 the Board. Very little support came from the shippers
15 for such exceptions and conflicts soon developed as
16 between various areas. The exception proposed by
17 the railways on livestock was opposed by one
18 province on the ground that it would enable that
19 commodity to move elsewhere for processing, whereas
20 another province, in which the processing would be
21 done, was in favour. The Board did not authorize a
22 hold down on livestock.

23 The Board, in the 17% Case, in commenting
24 on the situation of which the livestock was a specific
25 example made the following statement:

26 "This example of conflicting interests
27 shows how difficult it is to deal with
28 exceptions in a general revenue case.

29 (1952) 68 C.R.T.C. 273 at 291)"

30 In the 17% Case, the railways proposed



1
2 as an alternative, a flat increase of 10 cents per ton
3 on sand, gravel and crushed stone. The Board authorized
4 a flat increase of 10 cents per ton on sand and gravel
5 but made the increase on crushed stone 20 cents per ton.
6 On potatoes, the Board found that the then existing
7 interim increase of 12 per cent should not be raised
8 to 17 per cent as was authorized for traffic generally.

9 In a subsequent judgment, when dealing with
10 contentions that exceptions or hold downs should be
11 applied in a general revenue case, the Board reviewed
12 the results of action that had been taken in the 17%
13 Judgment of 1952, and on this subject said:

14 "In the so-called 17% case (1952) 68
15 C.R.T.C. 273) the railways had proposed
16 a flat percentage increase without excep-
17 tions, or an increase of 1% higher if cer-
18 tain exceptions were included. We ex-
19 perimented at that time with 'exceptions'
20 by holding the rates on potatoes down to the
21 level of the previous 12% interim increase,
22 only to find immediately thereafter that
23 the market price of the goods rose to extra-
24 ordinary heights. We became aware that
25 the increase in price was due to shortage of
26 goods; however, such modification as
27 was there effected in the rate level has
28 remained in effect.

29 "We also established a maximum increase
30 of 10 cents per 2,000 pounds on building sand



1
2 and gravel and 20 cents per ton on crushed
3 stone and stone screenings, only to be
4 assailed immediately by the crushed stone
5 producers that their product was competitive
6 with gravel. We promptly cancelled these
7 exceptions so that a uniform increase applied
8 thereto, evidently to the satisfaction of
9 those concerned as no further complaint was
10 made." (1956) 74 C.R.T.C. 209 at 234)

11 As I stated earlier, historically, increases
12 on coal and coke in general revenue cases have been
13 made on a flat cents per ton basis rather than by a
14 percentage increase. This fact has created problems
15 and complaints, which I will discuss when I am dealing
16 with the flat cents per 100 pounds method later.

17 Practical experience demonstrated to the Board
18 that attempting to make exceptions in a general revenue
19 case only leads to conflict of interests, an unfair
20 burden on some shippers and the preferment of others
21 and generally unsatisfactory conditions obtaining all
22 around. It is significant that since the 17% increase
23 of 1952, the Board has not found it desirable to
24 attempt to impose or instruct the carriers to impose
25 any hold downs or exceptions in a general revenue case.

26 Although the provinces continued to complain
27 of the horizontal percentage method of increase,
28 no alternative was suggested until the case which was
29 decided in 1958, when Manitoba suggested applying
30 the principle of the Bridge Subsidy, that is, the 50-50



1
2 approach to any general increase. The Board did not
3 accept this proposal of Manitoba and I will discuss this
4 method when I am dealing fully with that subject.

5 The method of a horizontal percentage
6 increase with hold downs does not meet the tests which
7 I referred to earlier as controlling the method to be
8 applied in general revenue cases. Individual shippers
9 who can be affected by the hold down may not re-
10 ceive notice. Time in the general revenue hearings
11 was taken up in dealing with specific rate situations
12 which could have been more satisfactorily handled
13 by discussions between the shippers involved and
14 the railways, and failing agreement between them, by
15 having the shippers bring an individual case before
16 the Board for determination. It was impossible to
17 determine a realistic basis, a basis that would
18 be fair to all shippers in deciding which commodities
19 were to receive relief by way of hold downs, or
20 the amount of the hold down. Obviously, this method
21 was not fair to shippers and railways alike. It was
22 favouring a shipper of one commodity over the
23 shipper of a competing product and was also favouring
24 the long haul shipper over the short haul shipper.
25 It was attempting to control, for example, in the
26 case of potatoes, one element of the cost of production
27 and relate freight rates to a volatile market price.
28 In the case of the proposal on livestock, it obvious-
29 ly needlessly disturbed long established market
30 patterns. No attempt was made to justify the hold



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2 downs on anything except on an arbitrary basis, but if
3 such an attempt had been made, it would have further
4 unnecessarily prolonged proceedings. The experience
5 of 1951 and 1952 proved conclusively that general
6 revenue cases could not introduce exceptions without
7 creating unnecessary conflicts, needless delays and
8 unfairness.

9 Flat Increases in Cents Per Unit of Traffic:

10 A flat increase in cents per unit of traffic
11 is a method whereby the same increase per unit of
12 traffic is applied without regard to transportation
13 characteristics of a commodity, its value or the
14 length of haul.

15 As I stated earlier, historically the method
16 of applying a flat increase per unit of traffic has been
17 followed with respect to coal and coke. The trans-
18 portation characteristics of coal and coke are the same
19 except for loadability, but the other factors, that is,
20 value of the commodity and length of haul, do differ.
21 However, the range of value of coal and coke is relative-
22 ly less than the range of values of all other commo-
23 dities moving on the railways. Moreover, in the basic
24 coal scales in Western Canada there is reflected a
25 difference in BTU's and accordingly the value between
26 lignite and bituminous. In Eastern Canada there is a
27 difference between rates on anthracite and bituminous
28 coal again having regard to value. In both Eastern
29 and Western Canada coked, the lighter loading commodity,
30 takes a higher rate. Again, in the case of coal while



1
2 there is a variation in length of haul, there are no
3 really long hauls involved except where coal is moving
4 under subventions. The average length of haul of
5 coal traffic is less than all other traffic.

6 It would be patently impracticable with the
7 very wide range of transportation characteristics,
8 value and length of haul, to apply the same increase
9 in cents per hundred pounds or other appropriate unit
10 of traffic to all movements. To reflect in some way
11 transportation characteristics, value and length of
12 haul would require differing flat increases by com-
13 modities and by length of haul. It could be suggested
14 that the flat increases would be graduated downwards
15 in the same percentage relationship as is found in
16 the Classification, that is, the highest increase
17 would apply on traffic classified in Column 100 and
18 the relationship of increase on other traffic
19 would be the same as under the Classification.

20 As the Commission knows, to enable traffic
21 to move freely certain commodity mileage rates are below
22 the rates which the commodity's position in the
23 Classification warrants. Again, specific commodity
24 rates which cover only point to point movements
25 because of competitive or other factors are lower
26 than the commodity mileage scale for that traffic.
27 If this fact was not taken into account, the increase
28 would bear heavier on these commodities than the
29 rate level justified. Nevertheless, making such
30 refinements is again impracticable.



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2 To take care of length of haul it could be
3 suggested that the taper in the equalized class rate
4 scale as prescribed by the Board of Transport Com-
5 missioners would indicate the gradations with distance.
6 However, this would not provide for differing taper
7 in class and commodity rates. Making such refine-
8 ments is impracticable.

9 Even without refinements, for application
10 of the flat increase method, it is obvious that Canadian
11 Pacific would need to have readily available for a
12 representative period every traffic movement catalogued
13 by classification rating and by distance as well as by
14 tonnage. Such detailed statistics are not available.
15 It should be noted that averages cannot be used in
16 applying a graduated increase.

17 Notwithstanding what I have mentioned con-
18 cerning the somewhat limited length of haul and value
19 range in coal, the fact that flat increases have been
20 applied to this commodity has caused complaints from the
21 lignite producers in Saskatchewan. This has resulted
22 in conflict between these producers and the Alberta
23 producers of bituminous and semi-bituminous coal which
24 has been in issue before the Board of Transport Com-
25 missioners. In one case the Board gave some weight
26 to the representations on behalf of the lignite pro-
27 ducers although the increase authorized did not come
28 into effect because of disallowance of the general
29 increase on appeal. In the subsequent case the
30 Board did not distinguish between lignite and other



1
2 coal. I should also mention that the effect of flat
3 increases on short hauls of coal has made it necessary
4 for the railways for many years to publish competitive
5 rates and agreed charges.

6 As I indicated, a flat increase in cents per
7 hundred pounds or other unit of traffic which does
8 not take into account transportation characteristics,
9 value and length of haul is patently impracticable and
10 could not meet the tests which I have referred to
11 earlier as controlling the method to be applied in
12 general revenue cases.

13 The method of increases in cents per unit
14 of traffic graduated to take into account transportation
15 characteristics, value and length of haul also does not
16 meet the tests which I referred to earlier as control-
17 ling the method to be applied in general revenue cases.
18 This method is not practical. It also disturbs the
19 basic rate structure. It would involve the securing
20 of detailed statistical information on all traffic move-
21 ments which would be expensive and time consuming.
22 To implement an increase by this method would require
23 re-publishing all tariffs. Indeed it might require
24 publishing additional tariffs to those now in effect
25 because the graduations that are suggested are not
26 the graduations that are in the basic rate structure.
27 This is because the taper graduation differs between
28 the equalized class rates and equalized commodity
29 mileage scales and there is no taper pattern in specific
30 commodity rates, competitive rates and agreed charges.



1
2 What I have in mind is that exceptions would have to
3 be made in certain commodities on certain movements
4 which might otherwise be treated as a group.

5 The method is not fair to shippers and
6 railways alike. The flat increase method even though
7 graduated on a class rate taper would result in due
8 regard not being given to the level of the rate be-
9 cause of differing taper in class and commodity rates.
10 The shipper moving traffic under commodity mileage
11 rates or specific commodity rates thus could be
12 assuming more than his proper share of the increase
13 required. This could impede the flow of traffic
14 and result in numerous complaints to the railways on
15 the grounds of unjust application of the increase
16 to the particular traffic involved. It could not
17 be implemented within a reasonable time and the
18 difficulties in estimating the revenue yield would
19 be most time consuming. Just as in the hold down
20 method which I have discussed, the flat increase method
21 would involve lengthy analysis of individual rates and
22 the contentions of shippers in regard to these
23 rates which can better be handled by negotiations
24 between the railways and shippers.

25 Assuming that the railways had made all
26 the calculations necessary to reflect flat increases
27 taking into account transportation characteristics,
28 value and length of haul, the Board might determine
29 that the increase applied for was not justified and
30 authorize a lower increase. In these circumstances



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2 all the multitude of individual calculations that were
3 involved in the first instance would have to be repeated
4 so that the tariffs could be set up to reflect the
5 authorization granted by the Board.

6 Even assuming no other difficulties the
7 cost of maintaining the statistics necessary and
8 in re-publishing all tariffs after every general
9 revenue case destroys the validity of this method.

10 Graduated Percentage Increases:

11 Another method whereby rates could be increased
12 is that of applying graduated percentage increases.
13 Under this method rates would be increased percentage-
14 wise but the percentage would be graduated. A number
15 of different means of gradation could be suggested
16 although they are all arbitrary.

17 The Canadian Electrical Manufacturers
18 Association when they appeared before the Commission
19 during the Toronto hearings suggested that graduated
20 percentage increases be applied to the class rates
21 using the taper in the equalized class rate scale as
22 prescribed by the Board as the basis for the gradation.
23 Assuming that there was to be a gradation in the
24 percentage increase, something related to the class
25 rate taper might be appropriate for class rates but the
26 question immediately arises as to what gradation would
27 be applied to other types of rates. If it was based
28 on the taper in the class rate scale and applied to
29 equalized commodity mileage rates, a distortion in
30 these rate scales would result because the tapers in



1
2 the equalized commodity scale are different from the
3 taper in the equalized class rate scale as well as
4 varying among themselves. As I indicated earlier,
5 there is no regular pattern of taper in specific com-
6 modity rates, competitive rates and agreed charge
7 rates. Any form of graduated percentage increase
8 is merely a method of increasing the taper in rates.
9 Indeed, it is a taper on a taper.

10 All parties of interest had an opportunity
11 of dealing with the taper question when the Board
12 dealt with the equalized class rate scales and the
13 equalized commodity mileage scales. Actually the
14 Board did not adopt the suggestions advanced by any
15 interest but evolved a taper of its own after many
16 months of analysis and consideration by the Board and
17 its traffic officers. A graduated percentage increase
18 would undo this work. Lest it be assumed that the
19 straight horizontal percentage increase does disturb
20 the taper in the Board's prescribed class and com-
21 modity mileage scales, I should point out that this
22 can only arise through disposition of fractions and
23 the Board when it believes that this has had a sig-
24 nificant effect requires the railways to re-publish their
25 basic scales so as to maintain the taper that the
26 Board prescribed.

27 Under the graduated percentage increase
28 method shorter hauls would take proportionately
29 greater increases than longer hauls. The amount
30 of this distortion would depend on the gradation



1
2 introduced. This method has the disability of
3 increasing the burden on short haul shippers and
4 introducing relief on long haul shippers without any
5 evidence to show that this would be equitable or
6 necessary. By placing a heavier burden on the
7 short haul traffic the problem of attrition and
8 erosion would be intensified necessitating a higher
9 overall increase.

10 The method of a graduated percentage
11 increase does not meet the tests which I referred to
12 earlier as controlling the method to be applied in
13 general revenue cases. While it would involve
14 substantially more statistical information than is
15 now maintained, in this regard it would not be as
16 great as that required by the flat increase method.
17 It could be implemented simply in so far as tariff
18 action is concerned. The method fails because it
19 is not fair to shippers and railways alike. It is
20 obviously an attempt to offset distances and to
21 introduce a greater degree of taper than the Board
22 after much inquiry found justified. This is unfair
23 to the short haul shipper. It would be unfair to the
24 railways because it would increase conflicts with ship-
25 pers and make the burden of proof in general revenue
26 cases much greater than at present. It would delay
27 general revenue cases. It would also make the short
28 haul traffic much more subject to erosion and attri-
29 tion. In the final analysis, it would therefore be
30 self-defeating so far as giving relief to long haul



1
2 traffic is concerned, because the additional revenue
3 that could not be obtained from the short haul traffic
4 would inevitably have to be obtained from the long haul
5 traffic. Aside from any other reasons, this method
6 needlessly disturbs the basic rate structure and for
7 this reason alone cannot be supported.

8 50/50 Increase - Horizontal Percentage
9 and Cents per Unit of Traffic:

10 Under this method, the additional revenue
11 required would be recovered in part by a horizontal
12 percentage increase and in part by a flat increase in
13 cents per unit of traffic.

14 This method is the principle of the Bridge
15 Subsidy but applied to increases rather than to reduc-
16 tions. All rates, regardless of level, would first
17 be treated with the same percentage increase and
18 then a flat amount per unit of traffic added thereto,
19 depending upon the balance of the amount of money
20 required.

21 For example, if the revenue required indi-
22 cated that an increase of 5 per cent plus 5 cents per
23 100 pounds was necessary on all rates, a rate of 10
24 cents would be increased to $15\frac{1}{2}$ cents per 100 pounds,
25 or 55 per cent; 50 cents would be increased to $57\frac{1}{2}$
26 cents, or 15 per cent; \$1.00 would go to \$1.10 per
27 100 pounds, or 10 per cent, and a rate of \$2.00
28 would be increased to \$2.15 per 100 pounds, or $7\frac{1}{2}$ per
29 cent, the amount of the increase becoming progressively
30 smaller percentagewise as the basic rate increases.



1
2 Basically the 50/50 increase method requires
3 considerable statistical information which is not
4 readily available and would be expensive to compile.
5 It does not give due weight to traffic characteristics,
6 value and length of haul. If gradation is introduced,
7 the problems in the method become staggering. Ob-
8 viously the 50/50 method places more than a propor-
9 tionate burden on the short haul traffic and on low
10 rated traffic. The impact on this method on heavy-
11 loading low rated traffic such as sugar beets, sand
12 and gravel, limestone and numerous other commodities
13 would be such that an increase by this method could
14 not be retained on such traffic. Witnesses on behalf
15 of the Province of Manitoba during the Winnipeg hearings
16 indicated that heavy-loading low rated traffic might
17 have to be exempted, that is, some other method of
18 increase applied. That method was not suggested but
19 the very fact that low rated heavy-loading traffic was
20 to be treated differently than other traffic in regard
21 to increases shows the kind of problems and conflicts
22 that would necessarily arise. Who, for instance, is
23 to decide what traffic is so low rated or so heavy-
24 loading as to justify being treated in a different
25 manner.

26 As I indicated earlier, the 50/50 method
27 was used in the application of the Bridge Subsidy
28 reduction. This was a reduction for traffic moving
29 over the "bridge" between Eastern and Western Canada.
30 By reducing rates by the 50/50 method a relatively



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2 greater reduction was given to the low rated heavy-
3 loading commodities than was given to the high rated
4 light-loading commodities. It is one thing to give
5 low rated heavy-loading commodities preference when
6 rates are being reduced; it is quite another thing to
7 single them out for special treatment when rates are
8 being increased. In other words, reducing low-
9 rated heavy-loading commodities more by the method does
10 not bring forth many complaints -- everyone is getting
11 a reduction -- but to increase them to a greater degree
12 than other traffic certainly would bring forth many
13 complaints. The Bridge Subsidy, by giving a higher
14 relative reduction on the shorter hauls than on the
15 longer hauls, has resulted in objections to the subsidy.

16 The 50/50 method of increase does not meet
17 the tests which I referred to earlier as controlling
18 the method to be applied in general revenue cases.
19 It is not practical and is unfair to shippers and
20 railways alike. As I have indicated, it is unfair
21 to the short haul shipper; it also places an undue
22 burden on low-rated traffic; it unnecessarily brings
23 about conflicts; it would seriously hamper the
24 expeditious handling of general revenue cases and
25 would involve disputes with individual shippers.
26 It would result in the increase not being applied
27 proportionately or evenly, and thus would disturb
28 the basic freight rate structure.

29 When I discussed flat increase in cents
30 per unit of traffic, I stated that these were



1
2 impracticable. By first applying a percentage in-
3 crease and then making up 50 per cent of the revenue
4 required by a flat increase, while not creating as
5 great a distortion as an increase restricted to flat
6 increases across the board, nevertheless it does intro-
7 duce distortions of such a degree as to clearly make
8 the 50/50 method impracticable.

9 * * * * *

10 I know that the horizontal percentage increase
11 method is not popular. I am convinced that any other
12 method, after it had been applied, would be even less
13 popular with the majority of shippers.

14 Unfortunately, theoretical conclusions can
15 be reached and indeed practical rate men sometimes find
16 themselves falling into error in appraising the hori-
17 zontal percentage increase method and in suggesting
18 alternatives. In view of the unpopularity of hori-
19 zontal increases, Canadian Pacific searched for a
20 practical alternative method that would be fair to
21 shippers and railways alike and which we could
22 present to this Commission. We have not found one.
23 The alternative methods adversely affect low-valued
24 heavy-loading commodities. Many years of practical
25 rates making experience were covered by the group
26 in Canadian Pacific who considered this question. As
27 traffic officers we recognize that there are insistent
28 demands from certain areas and certain shippers, for
29 another method which will result in transferring some of
30 the increase in rates to other areas or shippers. The



1
2 position of the traffic officer is similar to the
3 position of this Commission in that all shippers in all
4 areas of Canada must be considered and advantages to
5 one area or any shipper over another or action detri-
6 mental to the railways must not be approved.

7 Few subjects in the rail transportation
8 picture have been more thoroughly explored than the
9 method of increases in general revenue cases.
10 Fortunately, in Canada, with two transcontinental
11 railways, considerations which motivate increases in
12 the United States are not present. Canadian Pacific is
13 not an area railroad. It is just as interested in
14 moving maritime traffic as Manitoba traffic. It is
15 just as interested in moving fruit from Ontario or
16 the maritimes as it is in moving fruit from British
17 Columbia. Canadian Pacific does not favour the lumber
18 shipper of Alberta against the lumber shipper of
19 Ontario or the maritimes. Canadian Pacific realistical-
20 ly meets competition where it finds it. It believes
21 that any method of general increase which can be
22 applied which is not on the horizontal percentage
23 increase method, will adversely affect low rated
24 heavily-loading commodities, short haul shippers and
25 the railways. In this connection, two points should
26 be noted. The first is that horizontal percentage
27 increases can be applied only between the floor of the
28 railways' variable cost and the ceiling of the cost
29 of competing media of transport. The second is that
30 because of increasing competition, the contribution



1
2 which the higher rated traffic has been making in the
3 past to the lower rated traffic is not now possible and
4 low rated traffic must now carry more nearly its
5 proportion of total cost.

6 I wish to assure the Commission that
7 Canadian Pacific is supporting the horizontal per-
8 centage increase method because it is convinced
9 that it is the fairest and most equitable method for
10 shippers and railways alike.
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II - OTHER FREIGHT TRAFFIC MATTERS

"AT AND EAST" RATES ON GRAIN FOR EXPORT

During these proceedings a number of references have been made to the "At and East" rates on grain for export. These rates apply from the Georgian Bay ports (Port McNicoll), Midland, Owen Sound and Goderich) to the ports of Montreal, Three Rivers, Quebec and West Saint John.

"At and East" grain traffic does not represent a large movement on Canadian Pacific. Total revenues run from some \$2.75 to \$3.5 million. To ports other than Montreal and West Saint John the movement is very small.

During 1959 "At and East" grain traffic from all of the Bay ports to St. Lawrence River and Maritime Ports via Canadian Pacific totalled 12,656 cars with estimated revenue of \$3,241,700 as indicated below:

<u>Port</u>	<u>Number of Cars</u>	<u>Estimated Gross Revenue</u>
Montreal, Que.	4,302	\$1,080,490
Three Rivers, Que.	136	34,158
Quebec, Que.	991	248,899
West Saint John, N.B.	7,227	1,878,153
Total	12,656	\$3,241,700

For many years "At and East" grain rates



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2 were maintained on a competitive relationship basis
3 with the rates on grain from Buffalo to New York.
4 Because of the mileage from the bay ports to West Saint
5 John being much higher than from Buffalo to New York,
6 the revenues per mile on this movement were known to be
7 very low. It was hoped that increases in the rates
8 from Buffalo to New York, which were made from time to
9 time would enable the suspect movements on Canadian
10 Pacific to be at a proper level. Of course, the
11 volume of traffic which was suspect was not so great
12 as to have a significant impact on the overall freight
13 traffic picture.

14 In 1959 the United States railroads to meet
15 Seaway competition reduced the grain rates from the
16 United States lake ports to the eastern United States
17 seaboard. In view of this decision of the United
18 States railroads, to further depress these rates, it
19 was obvious that the hope of bringing the low "At
20 and East" grain rates to a proper level by continued
21 increases was not going to be realized. The
22 Canadian railways therefore maintained their rates
23 at the then existing level and determined to make a
24 full investigation as to whether the various movements
25 were compensatory. During Mr. Edsforth's evidence
26 in the fall of 1959, he informed the Commission of
27 this investigation. The investigation showed that
28 the rates to Montreal, Three Rivers and Quebec were
29 making a small contribution over variable costs
30 but that the rate to West Saint John was not compensatory.



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2 Accordingly, foreign freight traffic officers were
3 instructed to study the rates to all ports and to
4 develop a basis which would assure that all movements
5 were compensatory and weremaking the maximum possible
6 contribution. This matter is being actively pro-
7 gressed and it is anticipated that increased rates
8 will be filed with the Board in the near future.

9 The changes in the "At and East" grain rates
10 in the postwar period show that these rates can be
11 changed to meet changing conditions and costs of
12 transportation. The action taken by the railways
13 also shows that where competitive conditions result
14 in rates being non-compensatory, appropriate action
15 to put the rates on a proper level is instituted. In
16 the case of the "At and East" grain rates, it might
17 be said that the railways were slow in moving but it
18 must be remembered that changing circumstances up
19 until a year ago indicated that time with the increases
20 which were coming along would meet the situation. When
21 it became clear that this would not be the case, the
22 traffic officers of the railways decided that the
23 problem should be met as soon as possible.

24 Freight Rate Structure Based on Cost of
25 Service:

26 As the Commission knows, costs fix the floor
27 under the present freight rate structure. Above that
28 rates are fixed on value of service including com-
29 petitive factors. The freight rate structure must
30 keep the railways financially sound because the movement



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2 of freight is basic.

3 Practical rate men, whether traffic officers
4 of industry or of the railways, are reluctant to
5 depart from a rate making system that they know will work
6 and has resulted in the free movement of traffic on
7 financially sound railways, to one that has never been
8 adopted.

9 Any basic change in the system of making
10 freight rates such as the abandonment of the value of
11 service principle to that of cost of service must be
12 examined carefully to determine if, in fact, it
13 would serve the needs of shippers and the railways
14 alike better than the system it is intended to dis-
15 place.

16 Cost of service as a system of freight
17 rate making has been proposed in these proceedings by
18 the Saskatoon Board of Trade and the Province of
19 British Columbia. Both of these proposals were
20 advanced by economists without practical rate making
21 experience or without responsibilities to industry or
22 the railways in regard to the movement of freight
23 traffic, or without responsibility for maintaining
24 financially sound railways. No practical traffic man
25 has appeared before the Commission advocating a
26 departure from the value of service concept in
27 rate making.

28 The proposal that was advanced on behalf
29 of the Saskatoon Board of Trade by Dr. Winch was so
30 rigid that I do not think I need to discuss it. A



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2 more complete proposal and one which attempted to meet
3 the deficiencies of the rigid application of a cost
4 oriented system was advanced by the Province of
5 British Columbia.

6 The proposal of British Columbia which I will
7 discuss was cost oriented but not cost determinant
8 in all aspects. The proposal as advanced in the
9 formal submission of British Columbia was substantially
10 modified during the cross-examination of Dr. Hughes.
11 As I understand the proposal of Dr. Hughes, as it
12 was modified, it gets down to really two proposals.
13 The reason I say this is because Mr. Brazier seems,
14 from a reading of the transcript, to have changed the
15 proposal as it was expanded by Dr. Hughes and
16 introduced an absolute ceiling where Dr. Hughes seemed
17 to advocate a flexible ceiling. A proposal with a
18 completely flexible ceiling would enable traffic to
19 move freely and the railways to remain financially
20 sound. The proposal of a cost oriented system with
21 a rigid ceiling would inevitably result in financially
22 unsound railways or a very high ceiling.

23 Basic to the British Columbia proposal is a
24 distinction between "captive" and "non-captive" traffic.
25 As I stated earlier when discussing general revenue
26 cases, this is a theoretical concept and does not dif-
27 ferentiate between traffic movements in any practical
28 way. This of course was recognized implicitly by Dr.
29 Hughes because he defined "captive" traffic. Dr.
30 Hughes' definition of "captive" traffic was . . .



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2 "traffic for which there is no reasonable competition
3 other than rail. This would include carload movements
4 now taking place at non-competitive commodity and class
5 rates as well as traffic for which the only competition
6 was another railway".

7 During cross-examination Dr. Hughes modified
8 this definition by including market competition,
9 actual or potential, in addition to non-rail carrier
10 competition, as the basis for distinguishing between
11 "captive" and "Non-captive" traffic.

12 What I wish to draw to the attention of the
13 Commission concerning the definition is that there is
14 no attempt to develop why there is "no reasonable
15 competition other than rail". Obviously, as I
16 stated earlier in my evidence, the reason why there
17 is no competition other than rail may be because of
18 the rate level that the railways have established
19 to allow the traffic to move freely. It seems to
20 me to be a rather unusual definition to suggest
21 traffic is "captive" because the rate is so low
22 that other modes of transport which might carry the
23 traffic are not interested in it at that rate level.
24 Again, it should be noted in Dr. Hughes' definition
25 that to be "captive" there must be "no reasonable
26 competition". It seems to me that there could be
27 quite a few disputes as to whether any given set of
28 conditions amounted to "reasonable competition" or not,
29 including service considerations.

30 Under the British Columbia proposal just as



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2 under the existing freight rate structure value of the
3 goods is to be taken into account in fixing the rate.
4 However, value under the British Columbia proposal is
5 a factor only in so far as value affects cost and value
6 of service only in so far as the rate level of
7 "captive" traffic must be below the maximum so as to
8 allow the traffic in question to move freely.

9 The basic difference between the existing
10 freight rate structure and that proposed by British
11 Columbia would be the impact on the financial soundness
12 of railway operations which could flow from the rigidity
13 of maximum rates which could only be changed to reflect
14 increased costs. Under the present freight rate
15 structure the class rates set the maximum which
16 may be charged but these are subject to change as
17 required to meet revenue needs, which arise from
18 increased costs as well as other factors such as
19 traffic mix.

20 Under the existing freight rate structure
21 (exclusive of statutory grain rates) there is complete
22 rate flexibility subject to unjust discrimination
23 and undue preference. The flexibility of the
24 existing freight structure to meet competitive forces,
25 whether carrier or market, is retained under the British
26 Columbia proposal. Dr. Hughes' suggestions about un-
27 just discrimination and undue preference are a little
28 difficult for me to follow because he seems to have
29 first taken the position that no one would be con-
30 cerned about this but later took the position that



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2 they would have to be operative until such time as the
3 new scheme became fully accepted.

4 The British Columbia proposal introduces
5 rigidity through the concept of maximum rates on
6 "captive" traffic. What this maximum is to be is
7 the distinction between the two proposals I referred
8 to earlier but basically the maximum is the fully dis-
9 tributed cost plus some additional amount.

10 In regard to reflecting general increases
11 in costs in the freight rate structure, as I understand
12 Dr. Hughes' proposals this would be handled by ad-
13 justing rates in accordance with the increased cost
14 elements. I discussed the difficulties of this in
15 dealing with a cost oriented increase in general
16 revenue cases and there is no need to repeat my views
17 on this. Under the British Columbia proposal numerous
18 rate adjustments would have to be made to reflect
19 changed costs in various routes; for example maximum
20 rates would have to be adjusted from time to time to
21 reflect changes in route costs as unit costs vary
22 with traffic volume or when investment in the line
23 was changed. The myriad of changes would be cumber-
24 some and expensive.

25 Under the British Columbia proposal the
26 maximum rates could not be exceeded on "captive"
27 traffic. The maximum rate would be based on the
28 variable cost of handling a given shipment or class
29 of shipments over a given route plus a proportion of
30 constant costs. Dr. Hughes suggested that the



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2 proportion of constant cost to be applied could be
3 based on the method adopted in the grain cost studies.
4 The Commission will recall this method was taken so as
5 to be conservative and had the result of reducing the
6 proportion of constant costs which would be charged
7 on heavy-loading commodities. I think it is important
8 to note that the constant costs to be allocated under
9 the British Columbia proposal would be on the conser-
10 vative method the railways used in the grain study.
11 This would give a substantial preference to all
12 heavy-loading commodities without any evidence that all
13 these commodities required this conservative treat-
14 ment.

15 It must be noted under the British Columbia
16 proposal the ability of traffic to move freely at
17 a given rate level is to be taken into account only
18 up to the maximum on "captive" traffic. In other words,
19 if normal rated traffic is now moving freely on the
20 railways but the rate nevertheless is substantially
21 above total costs, the rate on such traffic would
22 automatically be reduced to the maximum.

23 The intriguing part of Dr. Hughes' proposal
24 is that there is no maximum on "non-captive" traffic.
25 Obviously if the railways could secure the traffic in
26 the volume that would maximize their revenues at
27 rate levels above the maximum, their endeavour would be
28 to show that all such traffic was "non-captive". On the
29 other hand, every shipper whose rates would be above
30 the maximum would be constantly endeavouring to show



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2 that there was no "reasonable competition". As a
3 result of this, I am sure there would be numerous
4 cases before the Board of Transport Commissioners and
5 I am sure there would be a lot more work done by cost
6 analysts, accountants, lawyers, as well as traffic
7 men. Certainly the administration of the freight
8 rate system would be much more expensive than it is
9 now and this extra cost will have to be borne by
10 shippers in the final analysis.

11 The British Columbia proposal recognizes
12 to some degree what is called "differential pricing".
13 The proposal would provide for cross-subsidization
14 through some competitive traffic and some "captive"
15 traffic moving at more than total costs thus contributing
16 to the short-fall on competitive or "captive"
17 traffic moving at less than total costs.

18 Under the British Columbia proposal value of
19 service as reflected in the Freight Classification
20 would continue to be operative for the majority of the
21 traffic. This is so because on the "non-captive"
22 traffic no maximum would be applicable. Competitive
23 rates and agreed charges reflect the rates of
24 competing carriers who use the railway Classification
25 as the basis of their rate making. Value of service
26 is also a factor in the level of commodity rates which
27 are instituted to meet market competition. Value
28 of service in rate making under the British Columbia
29 proposal would only be discarded for normal rated
30 traffic which would be deemed "captive" because railway



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2 rates were low in relation to cost of competing modes
3 of transport. This would apply only when value
4 of service considerations would enable "captive"
5 traffic to move freely at a rate in excess of the
6 maximum, but for the rigidity imposed by the maximum.

7 If the reason for advancing the cost oriented
8 basis of the freight rate system as proposed by
9 British Columbia was because value of service is
10 outmoded, it is rather surprising to find that
11 practically all of the traffic would still have this
12 element as a most important factor in determining the
13 rate level.

14 It is clear under the British Columbia pro-
15 posal that if two railways are competing between
16 points A and B and the traffic is "captive", the
17 maximum rate will be the maximum applicable to the low
18 cost carrier. On the other hand, if "captive" traffic
19 is not subject to rail competition the maximum between
20 two given points could be that of the high cost rail
21 carrier.

22 Under the Canadian freight rate structure,
23 while the Board does give some consideration to
24 Canadian National total costs, Canadian Pacific total
25 costs have determined the general freight rate level.
26 This notwithstanding the fact that at such a rate
27 level Canadian National has not earned anywhere near
28 reasonable rail earnings in the light of the invest-
29 ment in that system, and in most years have been faced
30 with substantial deficits.



Under the British Columbia proposal the same commodity moving on the same railway, the same distance, could have a higher maximum rate in instances where there was no rail competition involved. Under the existing freight rate structure this cannot occur because the same commodity moving for equal distance and assuming the same weight can only differ where there are competitive factors. Under the British Columbia proposal equalization of class and commodity mileage scales would be impossible. In view of the strong advocacy by British Columbia for equalization in the past, this reversal is difficult to understand. The present proposal could well have results similar to what has happened in the past where a province advocated something that appeared advantageous in theory but the application of which later created concern. I have in mind the advocacy of Manitoba for equalization that resulted in the elimination of the constructive mileage between Winnipeg and the Head of the Lakes. Another example was the advocacy of British Columbia for removal of the mountain differential, the practical effect of which was to substantially increase the lumber and fruit rates from British Columbia which created problems to shippers requiring individual rate action.

The British Columbia proposal would create a number of anomalous situations. For example, in one area it could be held that the traffic is "captive" on the basis that "no reasonable competition" exists.



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2 Therefore the rate could not exceed the maximum.

3 In another area where the same traffic is moving the
4 same distance it could be that the traffic would be
5 held in that area to be "non-captive" because there
6 was "reasonable competition" therefore the maximum
7 would not apply. If the rate of the "reasonable
8 competition" was higher than the maximum rate set for
9 the railways the same traffic moving on the railway
10 would bear a higher rate where it was "non-captive"
11 than where it was "captive".

12 Leaving aside for the moment the question of
13 the flexibility of the maximum which would be applicable
14 on "captive" traffic and which I will discuss later,
15 I would like to summarize the main points as I
16 understand them under the British Columbia proposal and
17 consider how these differ, if differ they do, from
18 rate making under the existing freight rate structure:

- 19 (a) All freight rates would have the
20 variable cost of handling the traffic
21 as a minimum.

22 The British Columbia proposal differs from
23 the existing freight rate structure in this regard
24 in only one respect. Under the existing freight rate
25 structure all freight rates must be just and reason-
26 able excepting that this is not applicable in the
27 movement of grain to export positions in Western
28 Canada. A just and reasonable freight rate is
29 one that has variable cost as the floor or minimum.
30 Under the British Columbia proposal, if it was



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2 consistently applied, that is, that cost orientation
3 must be basic to the entire rate structure, grain
4 rates would have to be treated as all other rates.
5 However, British Columbia did not take this
6 position but proposed that grain rates to export
7 positions in Western Canada be excepted and that they
8 remain statutory with the difference between the
9 statutory rates and the level they would otherwise
10 occupy in the freight rate structure to be covered
11 by national subsidy. Presumably the level of the
12 export grain rates under the British Columbia proposal
13 would be fixed on a basis consistent with that adopted
14 for "captive" traffic.

15 (b) Where competitive factors exist rail
16 rates would reflect such competitive
17 factors.

18 A competitive factor could be either actual
19 or potential carrier or market competition. Under the
20 British Columbia proposal as well as the existing
21 freight rate structure competitive rates, agreed
22 charges, specific commodity rates and commodity
23 mileage scales based on competitive factors would
24 continue just as at present.

25 (c) The value of the commodity and its
26 ability to bear transportation charges
27 and move freely would govern the rate
28 level of "captive" traffic subject to
29 maximum rates.

30 Under the British Columbia proposal there



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2 would be no established ceiling on "non-captive"
3 traffic but just as at present the ceiling would
4 be the cost of competing modes of transportation or
5 the ability of the traffic to bear the rate and meet
6 market competition at destination. For "captive"
7 traffic under the British Columbia system there would
8 be a fixed ceiling which would be some percentage
9 over the total cost of the movement. Under the pre-
10 sent system the ceiling is the equalized class rate
11 scale. Under the British Columbia proposal there
12 could be varying ceilings while under the existing
13 freight rate structure the ceiling is the same
14 west of the maritime territory. Under the
15 British Columbia proposal the basic arbitraries over
16 Montreal for traffic to and from the maritimes would
17 disappear.

18 It can therefore be seen that the result
19 of the British Columbia proposal would be a freight
20 rate structure largely the same as the existing
21 freight rate structure in the final analysis. True
22 it would start out on a somewhat more rigid prin-
23 ciple because of the maximum rates. However, the
24 necessity of allowing traffic to move freely would
25 determine the rate level of "captive" traffic and
26 the ceiling of maximum rates would have to be
27 flexible or the railways would not be able to
28 remain financially sound and provide the necessary
29 service. If the British Columbia proposal was
30 adopted the freight rate structure would be much



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2 more complex and much more expensive to administer
3 without serving the needs of shippers and railways
4 alike any better than the system now in effect.

5 Earlier I stated the British Columbia pro-
6 posals introduced rigidity through the concept of
7 maximum rates. It may be said that there is no dis-
8 tinction between the maximum rates under the British
9 Columbia proposal and the class rates which are now
10 in the freight rate structure. Leaving aside the fact
11 that the class rates are equalized and under the
12 British Columbia proposal the maximum rates would not
13 be, this is true if the maximum rates are to be
14 adjusted from time to time as revenue needs require.
15 The factors that were to be taken into account in
16 determining the maximum seemed to be the distinction
17 between the two proposals. This is an important
18 point in my view. If the ceiling rates were to be
19 adjusted from time to time as revenue needs require
20 as Dr. Hughes seemed to suggest, then any short-fall
21 in the railways' revenues because of change in traffic
22 mix, the introduction of competition after the
23 fixing of the maximum or the reduction of rates to
24 allow traffic to move freely, would be reflected by
25 changes in the maximum rates. However, if the
26 maximum rates once fixed were only to be increased
27 as costs increase, which seems to be the proposal
28 as explained by Mr. Brazier, then the maximum rates
29 once fixed could not be changed to reflect changes
30 in traffic mix, introduction of competition after



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2 the maximum rates were fixed or subsequent reduction
3 of rates to enable traffic to move freely because of
4 changed conditions in an industry. I am unable to
5 understand how the Board of Transport Commissioners
6 would ever be able to fix maximum rates which were only
7 to be adjusted for changing costs and not to take into
8 account changing conditions unless the maximum rates
9 were set at such a high level that they would be
10 completely unrealistic and would be there only to
11 take into account all possible future variations and
12 changed conditions. If this were done we would be
13 back, even under Mr. Brazier's proposal, to the
14 situation as it exists under the present freight rate
15 structure.

16 I should point out that basic to our freight
17 rate making under the Railway Act, (leaving aside
18 the movement of grain to export positions in Western
19 Canada) rates are changed and altered as changing
20 conditions or cost of transportation may from time
21 to time require. If under the British Columbia
22 system the law is to be changed so that rates may
23 only be changed or altered as cost of transportation
24 may from time to time require and no effect is to be
25 given to changing conditions, then obviously the Board,
26 in fixing the maximum rates, has to anticipate for the
27 future the effect of all changing conditions. This
28 would require maximum rates to be fixed at a very
29 high level.

30 In reading and listening to economists



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2 discuss pricing of transportation from time to time I
3 have come to the conclusion that they believe that
4 railway pricing under the value of service principle
5 is not modern and cannot be used to meet the changed
6 circumstances under which rail transportation now
7 lives. This is completely wrong. Costing of
8 traffic movements has for many years been actively
9 used in rate making by Canadian Pacific traffic
10 officers. To say that shippers do not know railway
11 costs is certainly correct and why the railways should
12 be required to inform buyers of their costs, to inform
13 competitors of their costs, or to become involved in
14 compilation of numerous statistics so as to provide
15 information to persons other than those directly
16 responsible for railway net revenues, I have never
17 been able to understand. I know of no other
18 business, regulated or non-regulated that is
19 required to be cost oriented to the degree proposed
20 by British Columbia.

21 Canadian Pacific has qualified cost
22 and market analysts on its staff. The Research
23 Department of Canadian Pacific is concerned with
24 developing new techniques, including new modes of
25 handling traffic for the purpose of reducing costs.
26 It also is active in developing better cost informa-
27 tion.

28 That the railways are not rigid in their
29 pricing methods is quite evident from the many
30 changes that have taken place in the concepts of



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2 rate making in the past few years, all of them designed
3 to meet new conditions. Incentive loading is one factor
4 which is designed both to meet competitive conditions
5 and also to take advantage of the lower unit costs
6 associated with heavier loadings. This is only one
7 example; there are many others such as Agreed Charge
8 rates, Railway owned trailer on flat car service,
9 broadened mixing privileges, and as time goes on
10 other changes and techniques will be developed.

11 The existing freight rate structure is quite
12 capable of introducing pricing methods that will enable
13 the railways to meet new conditions. Care must be
14 taken that a lot of statistical information is not
15 produced which while it may be interesting is not
16 required for rate-making purposes. The developing of a
17 great mass of cost data is expensive. Unnecessary
18 republishing of tariffs is also expensive. The rate
19 structure today is flexible in meeting the require-
20 ments of shippers and at the same time, has an
21 element of stability which is essential for the rail-
22 ways and shippers alike.

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2 MR. SINCLAIR: Mr. Roberts, please answer
3 my friends.

4 MR. COOPER: Mr. Chairman, before I start
5 my examination of Mr. Roberts, I wonder if you wish me
6 to make any announcement with respect to the length
7 of the present sittings of the Commission and sittings
8 in November?

9 THE CHAIRMAN: Yes, I wish you would.

10 MR. COOPER: The Commission will continue its
11 present sittings until the submissions of the railways
12 filed with the Commission on or about September 15 have
13 been heard and cross-examination thereon has been
14 completed. The Commission will then recess.

15 Its next sittings will commence on November
16 7 with the evidence in chief of the cost experts for
17 the provinces of Manitoba and Alberta and for the grain
18 marketing organizations.

19 On November 14, the cost conference which the
20 Commission has already directed should be held will
21 commence in Montreal under the chairmanship of Dr. D.E.
22 Armstrong, Dean of Commerce at McGill University, and
23 the Commission's cost consultants.

24 The rulings of the Commission with respect
25 to the cost conference and the conditions under which
26 it will be held and conducted will be found in volume
27 80 of the transcript at page 14070 and following pages.
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CROSS-EXAMINATION BY MR. COOPER:

Q. Mr. Roberts, I direct your attention first to the first paragraph of your submission and to the following sentence which occurs in the paragraph:

"As Mr. Crump stated to this Commission, notwithstanding the growth in other media of transport, railways still provide the most efficient and economical method of moving freight by land over substantial distances."

Would you just explain to the Commission what you mean by substantial distances, Mr. Roberts? Can you by mileage figures there?

A. Well, I do not think that you can generalize in a situation like this, you have to examine the type of traffic you are handling. For instance, such things as sand and gravel, a long haul for sand and gravel, a substantial distance, would be 200 miles. But lumber, for instance, could move 1000 miles to 1500 miles. You have to examine the commodity you are dealing with specifically. You could as an overall measure, I think, take anything that would be in excess of the general average of our traffic which would be 400 to 500 miles.

Q. Therefore, when you use the expression substantial distances you are using it with relation to the particular commodity which is being transported and with relation to the average length of haul or long haul of that particular commodity.



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2 A. That is what we have to examine.

3 Q. There appeared to me to be an inference
4 in the sentence which I have read that the rule of
5 the railways in the future must, because of the growth
6 of other media of transportation, be confined to moving
7 general freight for such distances and that the railways
8 future in short haul traffic because of truck competition
9 is, to say the least, very doubtful. Is that a proper
10 inference to be drawn from that statement?

11 A. Well, I would not like to say that the
12 Canadian Pacific Railways was going to go out of short
13 haul traffic. We have, as you know because it has been
14 mentioned in the course of these proceedings, these
15 merchandise services of ours which were set up in
16 British Columbia, the pilot operation which will
17 gradually extend all over Canada. We will meet
18 situations, in my estimation, through the use of our
19 own trailer on flat car services so I would not say
20 Canadian Pacific is going to go out of any traffic. We
21 are going to stay right in there with the use of improved
22 techniques.

23 Q. Well, you do not intend any such inference
24 by the sentence which I have read?

25 A. No, sir.

26 Q. Now, on page 2 in the first paragraph of
27 that page you state:

28 "General revenue cases therefore arise when
29 there has been a marked change in wage levels,
30 material prices, income taxes or cost of money."



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2 Have there been any general revenue cases, Mr.
3 Roberts, where a change in the cost of money has been a
4 significant factor?

5 A. Well, not to my knowledge. I imagine that
6 it has been a factor in some cases but not in any
7 particular one case.

8 Q. The main factors, at least in the general
9 revenue cases, have been rises in the cost of wages and
10 material prices?

11 A. Well, wages and material prices but another
12 significant factor has been the rise in income tax. I
13 think in 1947, income tax was about 35% and at the present
14 time it is 50% so that would be an important factor.

15 Q. On Page 3 you have an expression in the second
16 paragraph on that page, "insofar as law and traffic
17 conditions permit". The sentence in which that phrase
18 occurs is this:

19 "It must be remembered that in a general
20 revenue case, the application of the railways
21 is for authority to increase all rates equitably
22 insofar as the law and traffic conditions permit."

23 That phrase reoccurs in a number of places
24 throughout your submission and for the information of the
25 Commission I wish you would state just what you had in
26 mind in speaking there of the law, just those two words.

27 A. Well, "the law" would be the statutory
28 rates on grain which by law may not be increased.
29 Secondly, of course, our agreed charges, contracts
30 because they have a twelve month period to run so they



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2 must also be included under that category.

3 Q. So, therefore, you mean by that expression
4 statutory grain rates and agreed charges?

5 A. Yes, sir.

6 Q. On page 6 there is an item to which I wish
7 to refer you. The first complete paragraph on that page
8 reads:

9 "Other factors which influence rate levels
10 include the extent to which competition from
11 other forms of transportation for market
12 competition from outside the country are
13 prevalent."

14 My question is this: does not the domestic
15 market competition influence rate levels as well as
16 market competition from outside the country?

17 A. Domestic market competition?

18 Q. Yes.

19 A. That is between industries?

20 Q. Well, what I mean is this: if a manufacturer
21 wishes to get into a certain market so that he may compete
22 in that market with other manufacturers selling there,
23 is not his desire to get in taken account of by the
24 railways in giving him a competitive rate or an agreed
25 charge or setting a rate for his traffic?

26 A. We are speaking of two Canadian manufacturers?

27 Q. Two Canadian manufacturers going into the
28 same market.

29 A. Well, no sir. We have to treat all our
30 shippers alike, and the exception would be in the case of



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2 competition where you had to meet carrier competition
3 but in the general rate level all shippers are treated
4 alike.

5 Q. Well, suppose you had a shipper east of
6 Montreal trying to get in the Montreal market and compete
7 with a shipper who is getting into the Montreal market
8 from a point west of Montreal. Is the fact, the desire
9 of that shipper to get into the Montreal market and the
10 necessity for him to get there if he is going to stay in
11 business a factor in making a freight rate with that
12 manufacturer by negotiation?

13 A. No, sir.

14 Q. The reason I asked this question and I am
15 dwelling on it a bit, is that I do not quite understand
16 what you say on page 16 right at the top of the page
17 where you find these words:

18 "That is, a rate which has had to be made on
19 a relatively low basis in order to permit the
20 traffic to move or to enable a manufacturer
21 to find a market ---"

22 Now, am I misunderstanding something here?

23 A. No, sir, not at all. In that particular
24 sentence, of course, you are dealing with such things
25 as extremely low rate on sand and gravel which are
26 necessary to enable the traffic to move. Vegetables
27 from southern Alberta move under lower than class rate
28 level which is provided for them in the classification.
29 Fruit from British Columbia -- sulphur -- these are all
30 things that you have to establish a rate level which



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2 after negotiation over the years has been arrived at
3 and is found to be necessary. These are all things
4 that have been negotiated with the shippers of the
5 product and with the railways and we arrive at a basis
6 with them which enables the traffic to move.

7 Q. And the fact that a particular manufacturer
8 must compete in a certain domestic market in order to
9 survive has no influence at all in making a rate for the
10 manufacturer?

11 A. Well, sir, then you would have to get
12 involved in wages and the wage level at which one man
13 operates as compared with the other -- power ---

14 Q. Just confining it to freight rates without
15 getting into these other things, what you are saying
16 is no account is taken at all in fixing a freight rate
17 for a manufacturer with competition which he must meet
18 in a domestic market?

19 A. Not from another Canadian manufacturer,
20 all things being equal.

21 Q. Now when you go along to page 7 you set out
22 a certain number of tests of the method to be applied
23 in general revenue cases and there are four tests
24 lettered (a) to (d) and extending from page 7 through
25 the following page 8. Now, your first test is:

26 "It must create the least possible disturbance
27 to the basic rate structure."

28 Of course, that test must be made on the
29 assumption that there is nothing wrong with the basic
30 rate structure at the present time.



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2 A. Well, as I say it must be deemed just and
3 reasonable until it is proved otherwise so we must say
4 it is just and reasonable.

5 Q. So, the first test is purely -- not purely
6 -- is formally set on the assumption and expressed on
7 the assumption that the basic rate structure at the
8 present time is entirely satisfactory?

9 A. Yes, sir.

10 Q. Just a small point, Mr. Roberts. Under
11 the third test which is lettered (c) you have a sentence
12 there:

13 "It must recognize the forces of competition."

14 You mean there the forces of carrier competition?

15 A. Yes, sir, carrier competition and, of
16 course, market competition from outside the country.

17 Q. Similarly when you use the expression in
18 other places you are referring to carrier competition
19 and competition from outside markets and when I say
20 outside markets I mean foreign markets?

21 A. Yes, sir.

22 Q. On page 8 I am not quite clear on the
23 test that you have there which is lettered (d):

24 "While changes in cost of transportation are
25 the basic reasons for a general revenue case,
26 the method to be used should not be an attempt
27 to associate the increased cost with the cost
28 involved in the movement of individual segments
29 of traffic."

30 Now, stopping there for a moment, why is not in



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2 made
3 fact an attempt/to associate the increased cost with the
4 cost involved in the movement of individual segments of
5 traffic the fairest method of applying the burden of
6 increased costs in so far as shippers are concerned? I
7 am talking now as a matter of principle rather than method.
8 In principle is not that the fairest way to impose the
9 burden of increased costs?

10 A. Well, I think we must go back to the rate
11 structure itself and the rate structure itself is developed
12 to move traffic. It does not reflect -- it is not cost
13 determinant, it is a value of services taking into account
14 competition considerations and for that reason if you are
15 applying the increased basis of cost, well then -- it is
16 an extremely sensitive structure and you just upset it
17 and impede the flow of traffic, in my estimation.

18 Q. Is what you are saying, the freight rate
19 structure is based on value of services and, therefore
20 increases must be made on the same basis?

21 A. Proportionately, yes, sir.

22 Q. On page 9 you have a paragraph there, the
23 second paragraph the first sentence of which reads:

24 "If, as has been proposed to the Commission,
25 the Canadian freight rate structure were to be
26 revised to be more directly related to cost
27 than at present, although not solely so, the
28 situation would still be complex."

29 That sentence implies that the Canadian freight
30 rate structure today is related to cost in some degree.
Now, would you just point out the degree which the freight
rate structure at present is related to cost?



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2 A. Well, insofar as competitive rates and
3 agreed charges are concerned we certainly examine our
4 costs before we finalize any contracts or put in any
5 rates so to that extent I suppose they are. I suppose
6 you could say the overall rate level is related to cost
7 because it is predicated on our requirements.

8 Q. Would it be true to say that the freight
9 rate structure is more and more trending towards the
10 cost becoming more and more cost-oriented today?

11 A. I would not say it is becoming cost-
12 oriented, what I would say is this: certainly competition
13 is growing, and as I said before we examine our costs
14 but the value of services is still reflected in our
15 competitive rates. Certainly our competitors have
16 worked on that principle too, they get the rate that is
17 necessary to move a maximum volume of traffic and maximize
18 their net revenue.

19 Q. I am anticipating some questions which I
20 was going to ask you later but perhaps this is a
21 convenient point to raise the matter of the cost
22 investigation. Do you make your cost study before you
23 put in a competitive rate?

24 A. Well, of course, there are certain bench
25 marks we examine. We also have certain basic cost
26 information which is supplied to us by our research
27 department when we are examining a particular movement.

28 Q. Is that information supplied to you with
29 respect to every competitive rate which you publish?

30 A. Well, no sir. This is certain basic



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2 information we have in our day to day workings and dealings
3 with. We examine the situation in respect of the flow of
4 traffic, the particular traffic we are handling and it
5 is basic, of course, if we are not satisfied we go to
6 the research department and ask them to give us a final
7 figure.

8 Q. The basic information you have is
9 information that you had accumulated in your own
10 department through experience?

11 A. Yes, sir.

12 Q. And certain basic information which is
13 supplied to you by the research department?

14 A. That is right.

15 Q. And, if you come to a situation where you
16 are not quite sure you go to the research department and
17 ask them to look into it further?

18 A. That is right.

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2 Q. Can you give the Commission any idea
3 of how many references with respect to competitive
4 rates by percentage you would make to your Research
5 Department for further and detailed information?

6 A. I am sorry, I could not. They vary.
7 We get a little flurry, and we may be after them for
8 two or three in a day. Of course, this is only
9 speaking of myself, and I might have one in a week or
10 three in a day. But then, of course, the facilities
11 of the department are used by the freight traffic
12 manager, who has direct jurisdiction over rates for the
13 system, and by the various offices in Winnipeg and
14 Vancouver, and so on. So, I really don't -- I could
15 not put ---

16 Q. You could not put a percentage on it?

17 A. No.

18 Q. All I am trying to do in this line of
19 questioning, Mr. Roberts, is to determine the extent
20 to which costing is carried out before rates are pub-
21 lished by the railways today?

22 A. Well, to the extent, sir, that it is
23 necessary in evaluating competitive situations that
24 we have to meet, and, as I say, sometimes it is not
25 necessary after having satisfied ourselves that the
26 composition is such and so, and we know that the con-
27 tribution is good and we publish the rate. Other times
28 we have to go further than that.

29 Q. Would it be fair to say there are more
30 and more rates being costed in the railways day to day



1
2 work?

3 A. I would say that because our costing methods
4 are becoming better; they are becoming more refined.

5 Q. Well, may I leave that and refer you
6 to the same paragraph on page 9 where you mentioned the
7 so-called captive traffic under the British Columbia
8 proposal, and you say, "In the case of so-called
9 'captive' traffic under the British Columbia proposal,
10 the measure of the rate would be limited to the full
11 cost as a ceiling, that is, variable cost plus a full
12 contribution to constant costs except under certain
13 circumstances when a higher rate could be charged."
14 I must confess I have had some difficulty determining
15 the maxima for captive traffic under the British Columbia
16 proposal, and I felt I might get some light on this
17 if I asked you what you meant by the words "under
18 certain circumstances"?

19 A. As I understand, sir, the British Columbia
20 proposal is not confined to constant costs. It is
21 something over constant costs.

22 Q. Well, what are the certain circumstances
23 under which constant costs will be exceeded?

24 A. Well, traffic that would move freely at
25 a rate something over constant costs, but under the
26 ceiling that may be proposed which is some further level
27 higher than that.

28 Q. You merely mean that in the British
29 Columbia proposal there are some circumstances for which
30 you can't point as set out anywhere — one, two, three, four?



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2 A. No, sir.

3 Q. But, nevertheless, there are certain
4 circumstances where the fully distributed costs will
5 be exceeded as maxima in the case of captive traffic?

6 A. That is my understanding.

7 MR. BRAZIER: That is our generosity.

8 MR. SINCLAIR: Well, I can understand any-
9 body's confusion.

10 MR. COOPER: Q. When you are dealing with
11 this subject of captive and non-captive traffic and
12 so on throughout the rest of page 9 and on page 10
13 and part of page 11, have you direct reference to the
14 British Columbia proposal? Is this one section of
15 your submission where you are dealing with the British
16 Columbia proposal?

17 A. Yes, sir, this plus the section at the
18 back of Part II, yes.

19 Q. That being so, Mr. Roberts, I have a
20 little difficulty in following the last paragraph on
21 page 9, which is this, "Even assuming that all of the
22 so-called 'captive' traffic could pay full costs and
23 still continue to move freely, which is certainly not
24 the case, it would follow that a cost-oriented method
25 of applying a general rate increase would fall un-
26 evenly on the entire rate structure." As I under-
27 stand it, under the British Columbia proposal there
28 would be no general rate increases; there would be
29 no general revenue cases?

30 A. Well, we would have to have recourse to



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2 recover increases in costs even under the British
3 Columbia proposal.

4 Q. Exactly, but not by way of general in-
5 creases and not by way of general rate increases; am I
6 right in my understanding of that or not?

7 A. You could not recover your costs
8 without increasing the rates.

9 Q. But you could recover your costs by
10 selective increases rather than by a general rate
11 increase?

12 A. You mean selectively -- the sort of
13 revenue that we have had to recover -- selective in-
14 creases?

15 Q. Yes, under the British Columbia proposal?

16 A. So, you would increase the cost of
17 transportation of one fellow? Your basic structure
18 is cost-oriented, and then you start out on that
19 premise, and then you have an increase in costs, so you
20 increase the cost of one fellow and leave the other
21 fellow alone?

22 A. As your costs increase, as I understand
23 the British Columbia proposal, you would apprise the
24 costing section of the Board of Transport Commissioners
25 to that effect, you would establish that your costs
26 had gone up with respect to captive traffic, and your
27 maxima would be increased and you would apply your
28 increases to that captive traffic in so far as you
29 possibly could do so and, at the same time, apply
30 increases to non-competitive traffic which in any



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2 event is left free, but there would be no general
3 revenue cases?

4 A. As we know them now.

5 Q. As we know them now. Now, what has
6 puzzled me is that this paragraph commencing "Even
7 assuming . . ." appears to contemplate under the
8 British Columbia proposal general revenue cases when,
9 in fact, ~~there~~ will be none?

10 MR. SINCLAIR: Mr. Chairman, I don't want
11 to argue with my friend, but I would on the evidence
12 interpret the proposal of British Columbia somewhat
13 differently. I would say there would have to be
14 general revenue cases to fix the ceiling and then
15 also to justify the authorizations in advance, because
16 that you don't want to have your rates suspended.
17 So, the result would be exactly the same. It may be
18 theoretical today we would not want to have a general
19 revenue case. We could file the tariffs and let
20 them be suspended independently, but we know we don't
21 do that, and, similarly, it would be my submission
22 as to what will happen under the British Columbia
23 proposal.

24 THE CHAIRMAN: The witness believes this is
25 a necessary evil, apparently.

26 MR. SINCLAIR: General revenue cases are
27 time-consuming and difficult, yes, sir.

28 MR. MAURO: Of course, some of us disagree
29 with the "evil" part of that.

30 MR. COOPER: Q. All I want to do is to



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2 understand what Mr. Roberts is saying, and I think I
3 have got to the point where he is assuming that under
4 the British Columbia proposal there will be general
5 revenue cases. Perhaps there will and perhaps there
6 will not, but my understanding of the proposal was
7 that there would not be such cases, but having gone to
8 the point where I understand what Mr. Roberts is saying
9 in that paragraph, then I will leave the matter to my
10 friends to develop, if they wish to do so.

11 MR. BRAZIER: Your understanding is correct.

12 MR. SINCLAIR: Well, Mr. Brazier says one
13 thing and I say the other.

14 THE CHAIRMAN: Well, we can argue that.

15 MR. SINCLAIR: That is right.

16 MR. COOPER: As long as I don't get in the
17 middle of it.

18 Q. Mr. Roberts, I asked you some questions
19 a moment ago with respect to costing work done when
20 you published a competitive rate: what about costing work
21 done, if any, when you are negotiating an agreed
22 charge?

23 A. Well, we follow the same procedure, sir,
24 as with competitive rates. We examine all rates when
25 we are negotiating a new rate.

26 Q. Yes, I would expect the answer would be
27 the same with respect to agreed charges, and I just
28 wanted to get that on the record.

29 A. Yes, sir.

30 Q. Again with this question we have just



1
2 been dealing with on page 11, you again in the second
3 paragraph on that page assume that if rates are
4 based on costs there will, in fact, continue to be
5 revenue cases; is that correct?

6 A. Yes, sir.

7 Q. On page 12, at the bottom of the first
8 paragraph, the last sentence, "Again, of course, if
9 the level of the rate is not making a contribution over
10 variable cost and the traffic cannot be retained at
11 a higher rate the contract is terminated." There
12 you are speaking of agreed charges?

13 A. Yes, sir.

14 Q. Can you tell me how many such cases of
15 termination of agreed charges there have been?

16 A. Well, there has only been the one, and
17 that is an agreed charge covering crude oil from
18 southern Saskatchewan and some points in Manitoba to
19 Fort William. It was terminated in September of this
20 year.

21 Q. And it was terminated because the level
22 of the rate was not making a contribution over variable
23 cost?

24 A. That is correct.

25 Q. That is the only case?

26 A. Yes. Any other ones we have examined
27 were above variable and in some cases there were
28 negotiated increases.

29 COMMISSIONER ANSCOMB: How did that happen,
30 if you settle all these costs before you make these



1
2 agreed charges -- and the agreed charge is only a
3 matter of a year anyway?

4 THE WITNESS: Well, sir, this agreed charge
5 had been in effect for about four years, as I recall,
6 and the costs had changed. When it was originally
7 put in, of course, it was compensatory -- four or five
8 years ago; but towards the end of last year or early
9 this year in our going through the agreed charges we
10 came upon this and endeavoured to negotiate an increase
11 in the rate and were not able to, and it was terminated.

12 MR. COOPER: Q. On page 12, the last para-
13 graph, "In regard to competitive rates, no set pattern
14 is adopted. Sometimes these rates are increased at
15 the same time as general increases. At other
16 times, a general across-the-board increase in these
17 rates is made in advance of a general revenue case."
18 Can you give the Commission any instances of when a
19 general across-the-board increase in competitive rates
20 was made in advance of a general revenue case?

21 A. Well, I would say, that the 15 per cent
22 increase in competitive rates, which was made effective
23 on September 15, 1948, was made prior to the next in-
24 crease which was an 8 per cent as part of a 20 per
25 cent general application.

26 Q. Are there any other examples or instances?

27 A. Well, sir, we have dealt with competitive
28 rates in segments; for example, we made various
29 increases in our eastbound transcontinental rates on
30 October 1st, 1949. On February 23rd, 1951, the



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2 Ontario and Quebec pick-up and delivery rates were
3 increased. On March 7th, 1951, there was an increase
4 in the truck competitive rates in Alberta. These have
5 been made from time to time over the years on different
6 segments of traffic.

7 Q. And they have been made designedly in
8 advance of a general revenue case?

9 A. Not so, sir -- not designedly in ad-
10 vance, but in evaluating the situation.

11 Q. On page 13 you discuss the distinction
12 which, as you say, a number of people attempt between
13 captive and non-captive freight traffic and you state,
14 "This type of approach is foreign to a practical
15 traffic man. People who attempt to make this dis-
16 tinction do so on the assumption that some traffic
17 is the particular and exclusive preserve of the
18 railways to exploit as they will. This type of
19 traffic does not exist." If you take out those
20 words, "to exploit as they will", the assumption would
21 then be that some traffic is the particular and ex-
22 clusive preserve of the railways?

23 A. No, sir, I would not say that there
24 is any traffic that is our particular preserve. For
25 example, we may be handling -- and I come back to a
26 very basic material -- sand and gravel; we may be
27 handling by rail large quantities of sand and gravel
28 but the rates are predicated on a rate that will
29 move the traffic. We could put those rates so high
30 that the man would search and find a pit closer to his



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2 point of consumption so that the sand and gravel could
3 be trucked.

4 Q. Therefore, all traffic which the
5 railways move today is subject to competition and the
6 railway does not enjoy, or the railways do not enjoy,
7 a monopoly with respect to any segment of that traffic?

8 A. Well, you have to carry it a little
9 further than competition. You have to look at the
10 other conditions such as alternate sources of supply
11 or substitution of another kind of product.

12 Q. But no matter for what reason or reasons,
13 there is no traffic today over which the railways enjoy
14 a monopoly; is that your position?

15 A. In my estimation, sir, that is right.

16 Q. If that is so, Mr. Roberts, why should
17 rates be regulated in any way at all by any regulatory
18 authority? As I understand it, as a general
19 principle, regulation is put in by governments or
20 established by governments over industries which enjoy
21 monopolies and are therefore in a position to perhaps
22 be unfair or exploit those who must resort to the
23 services which those industries offer. Now, if the
24 reason -- which I have suggested is monopoly --
25 for regulation is gone, then why should not regulation
26 go also and the railways be freed entirely from any
27 regulation over their rates?

28 A. I would not like to see -- this is my
29 opinion, Mr. Cooper -- no regulation; I don't think
30 that would be good, sir.



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Q. Why not?

A. Well, you could have situations where this would not be good. You could have situations where one railway would be taking advantage of the situation to the detriment of the other.

Q. There are only the two railways in the country?

A. Yes. Well, there are the small railways -- the T.H. & B. and the Chesapeake & Ohio.

Q. Are you suggesting that rate regulation must be kept in effect so that one railway may be protected against another?

A. Well, that is one feature, Mr. Cooper. There should be some protection, certainly, in my estimation.

THE CHAIRMAN: But the shipper does not need it?

THE WITNESS: No, sir, I don't think we take advantage of our shippers, sir, at all.

---Short recess.



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2 THE CHAIRMAN: After Mr. Cooper has finished,
3 provincial counsel will cross-examine in this order:
4 Mr. Frawley, Mr. Brazier, Mr. Smith, Mr. Mauro, Mr.
5 Carter.

6 MR. FRAWLEY: Mr. Chairman, I beg most humbly
7 to ask not to be asked to cross-examine first. You have
8 been kind enough to suggest that by virtue of my seniority.
9 I would not like to cross-examine first. I have only
10 just completed presentation of my own briefs, and I would
11 like very much to stand down to the last.

12 THE CHAIRMAN: Mr. Brazier will commence, then,
13 and then will follow Mr. Mauro ---

14 MR. MAURO: It has all been considered, Mr.
15 Chairman.

16 THE CHAIRMAN: I will also say that in view of
17 the announcement this morning of the cost conference in
18 Montreal, from which all counsel will be barred, that we
19 will go on here on November 14 hearing the evidence of
20 Mr. Wesson of the Saskatchewan Pool.

21 MR. SINCLAIR: I wonder if he could let us
22 have his submission. I have a copy through the good
23 offices of the Commission, but I presume he has extra
24 copies. The reason I have not wired him, sir, was that
25 there was some suggestion that he might not present it,
26 but I take it it is now going to be presented and a date
27 is being fixed for him. I will take advantage of asking
28 Mr. Jack Wesson to send one to me himself.

29 THE CHAIRMAN: Mr. Wesson is about to retire.

30 MR. SINCLAIR: Well, we will try to send him



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2 off in a good way, sir.

3 MR. COOPER: Q. Mr. Roberts, on page 13 in the
4 same paragraph to which I was directing my attention in
5 the last few questions there appears this sentence in
6 your discussion of the admitted division between "captive
7 and non-captive" traffic:

8 "The answer to a practical traffic man is that
9 much of the traffic, for example, moving at
10 class rates is of a type that because of its
11 transportation characteristics (either weight
12 in relation to bulk, or claims experience, or
13 size of shipments) is not within the cost area
14 that competing loads of transportation will
15 meet, even though such traffic may be high
16 rated in relation to the average revenue per
17 ton-mile of all traffic, or the average revenue
18 per ton-mile of traffic moving on other types
19 of rates. "

20 If one accepts the British Columbia definition
21 of "captive" traffic as being traffic which is not subject
22 to reasonable competition, would not the traffic which
23 you refer to in the sentence that I have read be "captive"
24 traffic? If it is not, what other name do you give to
25 that class of traffic?

26 A. Well, sir, it is "captive" to a point.
27 Reasonable competition, of course, is a pretty loose
28 definition. Reasonable competition -- everybody has their
29 own idea of what is reasonable. But, you can get your
30 rates up to the point where it is attractive to other



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2 types of transportation, or, again, you come into the
3 question of using other products or other sources of
4 supply.

5 Q. There is a class of traffic, is there not,
6 for which in fact there is no competition?

7 A. At the moment. At the moment, for
8 example, there would be heavy machinery.

9 Q. Would you apply the word "captive" to that
10 traffic, or what word would you use to describe it?

11 A. I would say that at the present time the
12 rail is the most satisfactory method of handling the
13 shipment.

14 Q. You cannot designate that type of traffic
15 by any term? Obviously, you do not think the word
16 "captive" should be applied to it? Is there any other
17 term by which it should be designated?

18 A. I do not think so, sir. It is just
19 traffic moving by rail at the present time, but I do not
20 know, under different circumstances it might not move
21 by some other form or from some other place in the future.

22 Q. On page 14, Mr. Roberts, the first complete
23 paragraph on that page. You refer to the proportion of
24 the railway traffic which moves at class or commodity
25 rates and is not marked "competitive" represents a large
26 proportion of the total traffic in some areas of the
27 country than in other areas of the country. And, then,
28 you say:

29 "This does not mean, however, that in general
30 revenue cases, this traffic is being called



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2 upon to bear an unfair burden or an unjust
3 proportion of the increase."

4 Now, when you speak of an unfair burden, are
5 you speaking of it with relation to the shipper, as I
6 think you must? But, I would like you to answer the
7 question.

8 A. An unfair burden on the traffic, on the
9 traffic itself and the transportation rate charges
10 relating to it, whoever is responsible for them: the
11 shipper or the receiver.

12 Q. But might it not be said that it does in
13 fact constitute an unfair burden from the shipper's
14 standpoint in that the long haul shipper's absolute
15 charges for transportation are increased out of
16 porportion to what they were before?

17 A. I would not say out of proportion at all,
18 sir. They are increased proportionately. All rates
19 proportionately.

20 Q. I refer you to the report of the Turgeon
21 Commission on page 50, and this will be very familiar
22 to you. Under the heading of "horizontal increases",
23 examples are given of the effect of horizontal increases.

24 I now quote:

25 "In order that the real grievance of the
26 long haul shipper or consignee may be better
27 understood, it should be pointed out that the
28 disturbed relationship complained of is the
29 actual money, not the rate relationship, which
30 is considered unfair. For instance, two



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2 shippers or consignees have, before the
3 increase, a money difference between them of
4 \$10 brought about in this way. The long haul
5 shipper pays \$20; short haul shipper pays \$10.
6 Both shippers having their rates increased by
7 50%, the following money relationship is
8 established: the \$20 shipper now pays \$30;
9 the \$10 shipper now pays \$55. The difference
10 between them after the increase is \$15,
11 instead of \$10 as previously."

12 Now, do you consider that under those
13 circumstances the shipper --- and by "shipper" I mean
14 the long haul shipper -- has in fact a real grievance?

15 A. Well, no, sir, because his rate has been
16 increased proportionately.

17 Now, the mere fact that there was a \$10
18 difference between the two rates before does not have
19 any significance in that the rates were established to
20 meet the traffic.

21 I mean, you do not look at one rate and say,
22 I will make this \$10 above the other. You made the
23 rate to move the traffic.

24 Now, it so happens that proportionately one
25 is \$20; one is \$10. The relationship is one is 50% of
26 the other. The relationship is still maintained, sir,
27 in the rate in that it goes to 30 versus 15, it still
28 is 50% of the other.

29 The difference in the rate, sir, is not
30 significant in establishing the rate. You make the rate



1
2 to move the particular traffic.

3 Q. And I suppose that fact that the rate
4 relationship is not disturbed may be cold comfort to
5 the shipper whose competitive position is worsened by
6 the general revenue increase?

7 A. Well, sir, we have not asked him to bear
8 proportionately more than anybody else has.

9 Q. On page 15, you mention the method which
10 is followed upon application for a general revenue
11 increase, and you state:

12 "A calculation is then made to show what a
13 given percentage of increase applied to the
14 various segments of traffic is estimated to
15 produce. In these calculations, weight is
16 given to law and traffic factors as well as
17 attrition and erosion of traffic which will
18 follow from the application of the proposed
19 increase."

20 Now, as I understand it, before the
21 percentage increase to be applied for is struck the
22 factors of attrition and erosion are taken into account?

23 A. They are measured, sir, yes.

24 Q. Does not that result, Mr. Roberts, in,
25 in effect, selective increases being applied, in spite
26 of the fact that we speak of general percentage increases
27 and horizontal percentage increases as if that increase
28 was to apply equally throughout the whole rate structure?

29 In fact, it is known before any general
30 revenue case is brought to the Board that certain rates



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2 will not in fact be able to take that full increase
3 which is being asked for?

4 A. No, sir, I would not agree with that, Mr.
5 Cooper. You do not know that you will not be able to
6 retain the increase on any particular segment of traffic.
7 You apply the increase that is authorized, and then you
8 have to move back; take all or a part of the increase on
9 segments of the traffic as the competition forced you to
10 do it. So, you are not doing it selectively, sir. You
11 are, you might say, I suppose, testing the market. I
12 suppose you could call it that.

13 Q. Is not the effect of it selective
14 increase because, even before the general revenue
15 proceedings are brought, rates are reviewed and the
16 percentage is set having in mind, as you say here,
17 attrition and erosion on certain segments of traffic?

18 A. No, sir. It is not on certain segments,
19 sir. We carried out a study after the increase
20 authorized in 1956 because at that time we first
21 mentioned the attrition and erosion feature. We
22 carried out a study after the first increase was
23 authorized, the 7% interim increase, and also the
24 substitute interim increase to verify that our
25 assessment of what would happen when we applied these
26 increases was correct. Now, we also have carried out
27 the same sort of a study in respect of subsequent
28 increases. So you cannot say we pick any particular
29 type of traffic; we see what has happened in the past
30 and apply that factor.



1
2 Q. Well, would it be true to say that in
3 fact the traffic moving at normal rates is selected to
4 bear a certain percentage increase when it is known at
5 that time that other -- that is, competitive traffic --
6 will not bear that full increase?

7 A. Well, not particular segments, Mr. Cooper.

8 Q. Perhaps I am using the word "segments"
9 wrongly. Correct me if I am.

10 A. The attrition factor which we use in
11 regard of non-competitive traffic was 20%. Now, we do
12 not know just exactly where the competition would arise
13 to necessitate our taking off revenue equal to 20% of
14 the increase authorized.

15 Q. My difficulty, frankly, Mr. Roberts,
16 perhaps comes from, or is pointed up for me, from the
17 first sentence on page 50 of the Turgeon Report which
18 reads, and I quote:

19 "The method of applying a uniform percentage
20 increase to all rates is known as the
21 horizontal percentage increase."

22 I cannot appreciate the application of a
23 uniform percentage increase to all rates when it is
24 known that percentage increase in fact is not going to
25 be uniform before the percentage figure is ever arrived
26 at?

27 A. Well, sir, that is something that would
28 probably confuse you, but we do not know, Mr. Cooper,
29 when we apply, say, a 17% increase on a certain movement
30 that we will, by reason of competition, have to reduce



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2 that to, say, 11% over the previous rate or take it all
3 off.

4 Q. You would have a pretty shrewd idea, though,
5 Mr. Roberts?

6 A. No, sir, not on all movements, Mr. Cooper.

7 COMMISSIONER MANN: If you will pardon me,
8 Mr. Cooper. I would like to ask Mr. Roberts what
9 happened to the beer and ale rates to central Canada.
10 For instance, after the 17% increase was authorized,
11 did they ever go up?

12 THE WITNESS: That is in an agreed charge.

13 COMMISSIONER MANN: Before it became an
14 agreed charge, was it not a competitive rate?

15 THE WITNESS: It was a competitive rate, but
16 it has not been a competitive rate for --

17 COMMISSIONER MANN: It became an agreed charge
18 after the 17% increase came in.

19 THE WITNESS: Excuse me, Mr. Mann, the
20 competitive rates were increased and subsequently we
21 had to take the increase off.

22 COMMISSIONER MANN: Do you have any
23 information you could give us as to when that increase
24 came off?

25 THE WITNESS: I do not have it with me, sir.
26 I will get it for you.

27 COMMISSIONER MANN: Thank you, Mr. Roberts.

28 MR. COOPER: Q. I move to page 17, Mr.
29 Roberts, where you refer to exhibit 162. I only have
30 one question with respect to that exhibit, and that is



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2 as to its overall effect.

3 As I understand it, from the 17% freight rate
4 increase authorized in fact there was obtained 10.3%
5 increase in revenues?

6 A. That is correct, sir.

7 Q. I move, then, to page 21. I do not quite
8 understand the last paragraph on that page, which reads:

9 "Assuming that it was arbitrarily decided to
10 fix a maximum of a certain amount per hundred
11 pounds on all traffic, it would result in
12 higher rated commodities paying a lesser
13 increase, distance considered, than lower
14 rated commodities. For example, the hold-down,
15 and therefore the maximum increase on
16 refrigerators would come into play for
17 relatively short hauls while that on sand and
18 gravel might never become effective. There
19 would be variations as to the length of haul
20 and the effect of the hold-down on almost
21 every commodity handled."

22 Now, this paragraph, of course, is dealt with
23 under the heading of horizontal percentage increases
24 with hold-downs. Would you mind, Mr. Roberts, just
25 expanding on that a little bit and putting it, perhaps,
26 in a slightly different way so that it will be quite
27 clear to the Commission?

28 A. Well, sir, depending on the measure of
29 the rates, again, the hold-down would come into play
30 in respect of, say, sand and gravel.



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2 As I say, sand and gravel moves short distances at low
3 rates. You say you had an increase of 5 per cent
4 authorized with a maximum of 10 cents per hundred
5 pounds. Well, sand and gravel would not move
6 distances that would invoke the application of the
7 maximum of 10 cents. However, take refrigerators,
8 the level of the rate is such that, say at 500 or 600
9 miles the maximum would come into play and for a
10 shipment over 500 miles the maximum of 10 cents would
11 apply rather than the increase of 5 per cent.

12 Q. I think I understand. This method of
13 applying hold downs is in use in the United States,
14 is it not?

15 A. Yes, sir.

16 Q. You might indicate to the Commission
17 what difficulties, if any, have been experienced there.

18 A. Well, you have a different situation in
19 the United States in that you have what you might term
20 area railways. You have southern railways serving
21 Florida who produce citrus fruit, and a large market
22 would be New York. You have the citrus fruit pro-
23 ducing area of California and they are both interested
24 in the New York market. Now, they are each served
25 by different railways. The Southern Pacific, for
26 instance, serving California, says, "If I am
27 going to keep my shipper in the New York market his
28 increase in transportation charges should not exceed
29 that of the Florida shipper." The Florida could
30 be 10 per cent and as a result his increase is 5 cents,



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2 so, therefore, the exception would be made on citrus
3 fruit to enable the California grower to get into
4 New York. It will be set at 10 cents, maximum 5 cents,
5 so the California shipper would not exceed that of the
6 Florida shipper.

7 Q. If we had area railways here, or, let
8 us say, a method of set rates for areas then perhaps
9 this method would be feasible?

10 A. Well, it would probably be applied for
11 the same reasons that each railway serving a particular
12 area of the country would endeavour to protect his
13 particular part of the country. Now both the Canadian
14 National and ourselves, while we are not area railways,
15 we move lumber in the maritimes and we move lumber
16 from British Columbia; we move fruit from the Okanagan
17 Valley and we move fruit from Ontario. You have to
18 look at the whole of Canada which is quite different
19 from the United States.

20 Q. You would not suggest that our railways,
21 even though extending from coast to coast, nevertheless
22 should be regarded as area railways and one area separ-
23 ated from another for the purpose of a rate structure?

24 A. No, sir.

25 Q. I gather from what you have said that in
26 the United States this method of percentage increase
27 with hold downs in effect is there to preserve com-
28 petition in a domestic market and to allow competition
29 to take place in a domestic market?

30 A. As between areas, yes, sir.



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2 Q. Now, on page 25 you state in the third
3 complete paragraph and I quote:

4 "The method of a horizontal percentage
5 increase with hold downs does not meet
6 the tests which I referred to earlier as
7 controlling the method to be applied in
8 general revenue cases."

9 Does this method meet any of the tests to which you
10 have referred earlier? Perhaps you would be good
11 enough to turn back to those tests and just indicate
12 which of them, if not all, are not met by the method
13 of horizontal percentage increase with hold downs.
14 The reference is to page 7.

15 A. Well, the first basic test was that
16 it must create the least possible disturbance to the
17 basic rate structure. Well, if you have a percentage
18 increase authorized with a maximum amount in cents
19 per 100 pounds, of course, the rates that were pro-
20 portionately related before certainly would lose
21 their place in the structure. The structure would
22 become distorted, in my estimation.

23 Q. The second is that it must be practical?

24 A. Well, it must be practical in its
25 application. Now, in my estimation it would not be
26 practical to apply the percentage increase plus hold
27 downs because I do not think it is -- it is difficult
28 to say which type of traffic should be given the
29 benefit of the hold down. You have to arrive at --

30 say, you go out on this type of traffic; you



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2 say you will go out on lumber and the next thing you
3 know after that is granted you will have to extend
4 it to the manufacturer of these prepared sidings.
5 The thing is like a widening of circles, it goes
6 beyond what was originally intended.

7 Q. You are saying, as I understand it, it
8 is not practical because of the difficulty of selecting
9 the traffic to which hold downs should apply?

10 A. Certainly I would say that was one of
11 the major difficulties.

12 Q. What about the third test, that it must
13 be fair to shippers and railways alike?

14 A. Well, similarly it is not fair to one
15 shipper, the shipper of lumber, to say that we will
16 give a hold down of so many cents and not give
17 similar treatment to the shipper of prepared siding,
18 or, not a competing product, say apples. The amount
19 of the hold down could differ too, and I should not
20 pay my increase on a 7-cent maximum and somebody else
21 only pay 5 cents.

22 Q. You are talking now of unfairness to
23 the shippers; what about the railways?

24 A. Well, it places us in the position of
25 being faced with continuing complaints from our shippers
26 that we are favouring one particular commodity over
27 another.

28 Q. Now, test (d) is contained on page 8.
29 You might indicate why you consider the method to be
30 used should not be an attempt to associate the increased



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2 cost with the cost involved in the movement of
3 individual segments of traffic if, in fact, it does?

4 A. Well, because of the basic fact that
5 the rate structure as it is today is based on value of
6 service and each rate has its place. The rate
7 structure is sensitive, despite what people say, and
8 with the use of hold downs you are upsetting all these
9 different relationships within the structure, one to
10 another.

11 Q. On page 26, Mr. Roberts, you mention
12 that coal and coke take over an increase in cents per
13 unit of traffic rather than a percentage increase.
14 Do you think an increase on coal and coke should be
15 expressed in percentage and not in cents per unit of
16 traffic?

17 A. Well, you have two schools of thought
18 on that. The lignite producers in Saskatchewan would
19 like to see them on a percentage basis because they
20 claim that the use of the flat cents per hundred
21 pounds increase is detrimental to their interests
22 when the same increase applies to producers from
23 Drumheller. This has been established, I think,
24 since the first rate case.

25 THE CHAIRMAN: In 1917?

26 THE WITNESS: About 1917, yes, the method of
27 placing coal in a different category of cents per
28 one hundred pounds has been carried right through under
29 the different authorizations of the Board.

30 MR. COOPER: Q. Would your view be it is so



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2 imbedded now in the rate structure that it should be
3 continued?

4 A. Well, if percentage increases are fair
5 for everybody else I take the position it should be
6 fair for coal.

7 Q. That is why I asked you the question, of
8 course, because your basic position is that percentage
9 increases are fair for everybody and indeed the only
10 real fair method.

11 A. That is right.

12 Q. And, therefore, I would take it that what
13 you say should apply to coal and coke equally as to
14 everything else?

15 A. Yes, sir.

16 Q. You deal, ending on page 30, with a
17 method of graduated percentage increase and I will not
18 deal in any detail with it, because no doubt it will
19 be dealt with by other counsel. However, I just
20 want to summarize in a word your position with respect
21 to this suggested method and your objection to it.
22 I think your objection is expressed very shortly on
23 page 31 at the end of the first paragraph on that page,
24 "It is a taper on a taper."

25 A. That is correct.

26 Q. That is your fundamental objection to
27 this graduated percentage increase?

28 A. That is right. You can see it would
29 scale down from 10 per cent to 5 per cent, and you
30 would be paying 10 per cent on your shorter haul traffic.





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2 which I think would, in my estimation, be a heavy
3 burden on the traffic and make it susceptible to
4 competition. I do not think it is a fair method.

5 Q. We may come later on in Mr. Edsforth's
6 evidence to where a graduated method has been suggested
7 to deal with it, but I think that is as far as I wish
8 to go with it at the moment. At page 33 under
9 the heading of "50/50 Increase, Horizontal Increase
10 in Cents per Unit of Traffic," under this heading
11 had you in mind the Manitoba proposal as contained in
12 the preliminary submissions of Manitoba in Winnipeg?

13 A. Yes, sir, this is all we had to work
14 on when this brief was prepared.

15 Q. That proposal has now been changed so
16 it cannot be referred to as a 50/50 ---

17 MR. MAURO: Mr. Chairman, with respect I
18 simply want to say that the proposal in Manitoba
19 never suggested a 50/50 split but in cents per hundred
20 pounds reflecting terminal and line-haul.

21 THE WITNESS: This is a use of words, Mr.
22 Mauro.

23 MR. MAURO: I just wanted to make it clear
24 it has not been changed.

25 MR. COOPER: But, in any event, there will
26 be further evidence with respect to this proposal,
27 and, therefore, I do not intend to go into it in
28 any detail at this time. I merely wished to direct
29 your attention to one sentence in the last paragraph
30 on page 33:



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2 "Basically the 50/50 increase method requires
3 considerable statistical information which
4 is not readily available and would be ex-
5 pensive to compile."

6 MR. SINCLAIR: Mr. Chairman, just so there
7 will not be any misapprehension, I certainly do not
8 want my friends to be under the impression that I am
9 taking upon myself the onus of calling evidence to
10 deal with all the various proposals put forward.
11 After all, I have only had them a couple of weeks and
12 some of them might never hear what our position is
13 until I have filed my final statement.

14 THE CHAIRMAN: You are commenting now on
15 what was given at Winnipeg?

16 MR. SINCLAIR: What I am saying is, I do
17 not want my friends to think the only time they are
18 going to hear the position of Canadian Pacific on the
19 proposals put forward is through Mr. Roberts and Mr.
20 Edsforth. Some of the economic aspects of it
21 will be dealt with by myself in my submission.

22 THE CHAIRMAN: Well, so long as you are
23 around.

24 MR. SINCLAIR: I realize it puts some dis-
25 ability on my friends because I am immune from their
26 questions. Up till now I have had to fight them
27 off from the back and I suppose I have to ---

28 THE CHAIRMAN: We will make the best of it.

29 MR. COOPER: I was not implying at all
30 that Mr. Sinclair might not be dealing with this matter



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2 in final summation or argument. I was making a
3 point from what Mr. Sinclair said this morning that
4 the Manitoba proposal would be dealt with in the
5 evidence of Mr. Edsforth.

6 MR. SINCLAIR: Some of it.

7 MR. MAURO: What you want to deal with.

8 MR. SINCLAIR: Whatever I want to deal with
9 in evidence will be dealt with by Mr. Edsforth and
10 whatever I want to deal with in argument I will do so.
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2 Q. I have called your attention to the
3 first sentence on the last paragraph of page 33:
4 would you expand that to some extent and indicate the
5 considerable statistical information to which you have
6 reference and the expense of compiling it?

7 A. We would have to have, sir, a breakdown
8 of the tonnage moving under the different types of
9 rates; that is to say, under agreed charges, which
10 is not readily available now; under competitive rates,
11 and normal rated traffic. We would also have to be
12 able to separate from our entire handlings all inter-
13 national traffic which is quite a tremendous job and
14 which is certainly not readily available now.

15 Q. When you say "quite a tremendous job"
16 what length of time would it take to do it, and what
17 would be the expense involved?

18 A. We don't have the facilities available
19 as yet to do it. We hope to be in that position at
20 some time in the future, but it would all have to be
21 done pretty well manually now.

22 Q. On page 34 you mention the bridge sub-
23 sidy, and the last sentence on that page -- and I have
24 only one question with respect to the bridge subsidy --
25 is it your view that the bridge subsidy should be
26 retained or should it be discontinued?

27 A. Well, the position of Canadian Pacific
28 is that we are against subsidies being applied to
29 transportation. If any assistance is found neces-
30 sary, then it should be given in some other manner.



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Q. I am sorry, I just missed that.

A. If it is felt that any assistance is necessary to some area, then it should be given in some manner other than being applied to transportation.

Q. The bridge subsidy, then, should be discontinued at least in the way it operates now?

A. In the way it operates now.

Q. At page 36, at the bottom of the page, you say, "Canadian Pacific believes that any method of general increase which can be applied which is not on the horizontal percentage increase method, will adversely affect low-rated heavily-loading commodities, short-haul shippers and the railways. In this connection, two points should be noted. The first is that horizontal percentage increases can be applied only between the floor of the railways' variable cost and the ceiling of the cost of competing media of transport."

Stopping there for a moment, if there is no competing media of transport, then the ceiling is unlimited, or, in fact, there is no ceiling?

A. Well, the ceiling, of course, is the ceiling of the class rates -- the equalized class rates.

Q. Yes, I understand that, but you have a ceiling of the cost of competing media of transport, and it seemed to me there was one segment of traffic, or one situation which was not provided for in your statement there?



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2 A. Well, of course, you come again, sir --
3 we can only apply it between the ceilings -- subject
4 to the possibility of substitute transport or substitute
5 products or substitute sources of supply.

6 Q. Yes, there is a ceiling, but I am sug-
7 gesting that there may be some segments of traffic for
8 which the ceiling is not the cost of competing media
9 of transport?

10 A. Well ---

11 Q. That brings us back to our discussion
12 of competitive and non-competitive traffic.

13 A. There is some which is captive today and
14 not tomorrow.

15 Q. On page 38 you have got "Estimated
16 Gross Revenue" in your table. Are the actual figures
17 available as yet, for the year 1959?

18 MR. SINCLAIR: During 1959?

19 MR. COOPER: During 1959 "At and East"
20 grain traffic from all of the Bay ports to St. Lawrence
21 River and maritime ports via Canadian Pacific totalled
22 12,656 cars with an estimated revenue of \$3,241,700
23 as indicated -- and then the ports are set out and
24 the number of cars and "Estimated Gross Revenue".
25 I am asking if the actual figures are available now?

26 MR. SINCLAIR: Well, I am responsible for
27 this, and I told them it was not necessary to do a
28 waybill revenue count. In other words, we didn't do
29 a waybill check. These are the way they are carried
30 in the company's accounts without an absolute check.



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2 There may have been some adjustments -- that is what
3 I am saying, but they would not be significant.

4 MR. COOPER: Well, the estimated gross
5 revenue figure, then, you consider sufficient for the
6 Commission's purposes?

7 MR. SINCLAIR: That is right.

8 MR. COOPER: And accurate within very narrow
9 limits as coming from the company's records?

10 MR. SINCLAIR: That is right.

11 MR. COOPER: Q. On page 41, and on following
12 pages, you make reference to the evidence adduced by
13 British Columbia, and I merely want to ask you a very
14 few questions there just to pick up the transcript
15 references which you had in mind in making various
16 statements contained on page 41 and the pages which
17 follow.

18 The first one is on page 41, the second com-
19 plete paragraph, "The proposal as advanced in the formal
20 submission of British Columbia was substantially modi-
21 fied during the cross-examination of Dr. Hughes."
22 I would like to pick up your transcript references
23 there?

24 A. That is volume 78, pages 13788 and 13789.

25 Q. Thank you.

26 A. And also volume 79 at pages 13963 to
27 13966 inclusive.

28 Q. Thank you, Mr. Roberts. While I am on
29 this page, the last sentence of that paragraph from
30 which I have been reading is as follows, "A proposal



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2 with a completely flexible ceiling would enable
3 traffic to move freely and the railways to remain
4 financially sound." Such a proposal -- that is, a
5 completely flexible ceiling is just what we have got
6 today, isn't it?

7 A. That is what we have today. Eventually
8 we come around to exactly the same rate structure as
9 we have today.

10 Q. Right. Page 42, I want to pick up
11 from you there another transcript reference: the first
12 complete paragraph on that page. "During cross-examina-
13 tion Dr. Hughes modified this definition by including
14 market competition, actual or potential, in addition
15 to non-rail carrier competition, as the basis for
16 distinguishing between 'captive' and 'non-captive'
17 traffic."

18 A. That is volume 79, pages 13971, 13972
19 and 13973; and also volume 80, pages 13980 and 13981.

20 Q. Similarly on page 44, "Dr. Hughes
21 suggested that the proportion of constant cost to
22 be applied could be based on the method adopted in
23 the grain cost studies."

24 A. That is in his brief, sir. Volume
25 76, page 13314; volume 80, pages 14050 and 14051.

26 Q. On page 48 under subparagraph (b) you
27 say, "A competitive factor could be either actual or
28 potential carrier or market competition." It was
29 my understanding that the competitive factor could
30 only be actual market competition. Can you give me



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2 the reference or source of the statement which you
3 make there?

4 MR. SINCLAIR: Mr. Cooper, the reference as
5 I gave it for Dr. Hughes' statement on page 43, and the
6 references for page 44 as to constant costs, we will
7 have to look up and give to you. I gave you page
8 references for Dr. Hughes' suggestions about undue
9 discrimination and undue preference, etc. Mr. Brazier
10 is asking for them in regard to page 44. We would
11 have to look that up. That was this business about
12 constant costs, but it is in the transcript.

13 MR. COOPER: Q. I was directing your
14 attention to this section on page 48, "A competitive
15 factor could be either actual or potential carrier
16 or market competition." It was my understanding
17 that under the British Columbia proposal a competitive
18 factor could only be actual carrier or market com-
19 petition and not potential. I would like to get your
20 source for the statement you make there?

21 A. Volume 79, pages 13971 to 13973; and
22 also volume 80, pages 13980 and 13981.

23 Q. Similarly on page 50, in the middle of
24 the page, there is a sentence, "However, if the
25 maximum rates once fixed were only to be increased
26 as costs increase, which seems to be the proposal as
27 explained by Mr. Brazier, then the maximum rates once
28 fixed could not be charged to reflect changes . . ."
29 and so on. Is there a transcript reference there?

30 A. It is volume 78, pages 13788 and 13789;



1
2 and volume 77, page 13651; and volume 79, pages 13963
3 to 13966 inclusive.

4 Q. At page 52 -- and this is my last
5 question, Mr. Roberts -- you state in the third
6 paragraph, the first sentence, "The existing freight
7 rate structure is quite capable of introducing pricing
8 methods that will enable the railways to meet new
9 conditions." Are you referring there to pricing
10 methods which are not now being used and which are
11 going to be introduced, or what?

12 A. Well, we have changed our -- at least, in
13 endeavouring to meet competitive situations, introduced
14 the incentive method of publishing rates. We will
15 continue to do that and broaden the application of that
16 type of rate making, sir, to meet conditions as they
17 arise in the future.

18 Q. This introduction of pricing methods
19 is rather a continuance and broadening of methods al-
20 ready in effect rather than the injection of any
21 new pricing methods?

22 A. That is as I see it now, sir, but what
23 we might be able to evolve in the future I would not
24 know right at the moment.

25 Q. No. I am only asking you present
26 plans for the future?

27 A. Well, it is a broadening of the present
28 method of making rates.

29 MR. COOPER: Thank you very much. That is
30 all I have, Mr. Chairman.



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2 THE CHAIRMAN: Will you carry on at two
3 o'clock, Mr. Brazier?

4 MR. BRAZIER: Yes, Mr. Chairman.

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6 ---Luncheon adjournment.

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-- On resuming at 2 p.m.

THE CHAIRMAN: Order, please.

MR. BRAZIER: Q. Mr. Roberts, would you agree with the proposal that the fundamental problems of the rate structure in Canada and the United States had been the same in the last fifteen years?

A. The fundamental problems in Canada and the United States?

Q. Yes.

A. No, sir.

Q. You would not?

A. No, sir.

Q. In the early days, is it true to say that the rate structures in both countries was built on the same basis before the advent of competition?

A. Well, I do not know about the basis being the value of service to move the traffic under the conditions governing in each country.

Q. That was the fundamental principle followed in both countries; was it not?

A. To move the traffic, yes, sir.

Q. Yes. And your experience as a practical rate traffic man includes not only Canada but includes the United States?

A. It includes the United States in so far as international traffic is concerned.

Q. Yes. Do the rates on the American subsidiaries of the Canadian Pacific Railway come under



1
2 your jurisdiction in any way?

3 A. No, sir.

4 Q. You have nothing to do with them?

5 A. No.

6 Q. You never discuss them with the general
7 traffic manager of the American subsidiaries?

8 A. No, sir.

9 Q. You never do.

10 Well, tell me, then, your opinion of what the
11 essential differences have been between the situation in
12 Canada and the United States, aside from a difference
13 in approach by regulation?

14 A. Well, then, you take away the major
15 difference, sir, after all, and when you have, in the
16 case of the grain out in western Canada 26% of your
17 service where the rates remain fixed, why then you are
18 taking away the major part of the railway system in
19 Canada.

20 Q. Could we discuss it in the meantime, Mr.
21 Roberts, leaving aside the statutory rates for the
22 time being?

23 A. Well, basically the rates in both countries
24 are predicated on moving traffic.

25 Q. Yes. And as competition appeared, the
26 railways in the United States started losing traffic to
27 the trucks?

28 A. Truck competition certainly has been a
29 major factor in the United States.
30



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2
3 Q. And it has been a major factor here in
4 Canada?

5 A. It certainly is growing. Truck
6 competition is growing.

7 Q. But it is a major factor today, is it not?

8 A. It is an important factor, yes.

9 Q. Now, truck competition, would you agree,
10 involves not only the for-hire carrier but also the
11 private carrier?

12 A. That is true, I think, more in the United
13 States than in Canada. The private carrier.

14 Q. There are a number of firms that have
15 established their own fleets of trucks in Canada, though?

16 A. Well, there are people out in Vancouver,
17 for example, who started out and did establish their
18 own trucks. For example, Kelly Douglas did, but they
19 in due course turned it over to a private enterprise to
20 operate and they operate under contract rates as I
21 understand it.

22 Q. Yes. And do you know how those contract
23 rates are arrived at at all?

24 A. No, sir. They are not made public.

25 Q. Would you agree that when a company
26 establishes its own truck line it is not interested in
27 the value of service in any way?

28 A. Well, you cannot disregard the value of
29 service, the value of getting the product to the market
30 whether you operate your own trucks or not.



1
2 Q. I would suggest to you that you would
3 expect the company to consider just its cost of getting
4 the goods to the market?

5 A. Well, it would consider the cost, that
6 is true. That is true, but there must be other factors
7 associated with it than just the plain cost.

8 Q. Well, what would you suggest?

9 I will tell you a specific example in going
10 out to British Columbia, I believe the Safeway stores
11 operate their own trucks through Vancouver back to the
12 Okanagan Valley and maybe over through the Kootenays?
13 Is that correct?

14 A. That's right.

15 Q. I suggest to you all they are interested
16 in is what their cost of transportation is?

17 A. Well, the overall cost, yes, Mr. Brazier.

18 Q. And they are not concerned that some of
19 the goods in the truck may be worth a dollar a pound
20 and others worth \$10 a pound?

21 A. No, it is the cost of performing the
22 service for themselves.

23 Q. Yes. I would like to go through some of
24 the pages of your brief, Mr. Roberts, just a few kind
25 of general questions, some of which Mr. Cooper may have
26 touched upon during his cross-examination.

27 First, on page 2, you say:

28 "General revenue cases, therefore, arise
29 when there has been a marked change in
30 wage levels, material prices, income taxes



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or cost of money"?

A. Yes, sir.

Q. Now, those are all cost factors, are they not?

A. Yes. I would say in the aggregate they are all important factors, Mr. Brazier.

For example, in any one case it might be said that the cost of money factors may not be of prime importance in relation to the, say, the wages, but certainly overall cost of money is very important. It has increased considerably over the years.

Q. And it would be reflected in your fixed charges and things like that?

A. Yes, sir.

Q. And it, too, is an increase in cost. It is cost of money, and others are cost of labour and cost of material?

A. That is right.

Q. And would it be true to say that since the end of the war all of the general increases that have been granted have been, for that reason, granted or even applied for because of that reason?

A. Because of the reason of?

Q. Increased costs.

A. Increased costs, yes, sir. But reflected in that, of course, too, would be in evaluating the situation at the time you make the increase the change in the traffic mix.

Q. Have you ever mentioned that in any general



1
2 rate increase?

3 A. No, we have not, sir, but it would be
4 inherent in the application in dealing with the base
5 on which the increase is asked for. That is, the
6 revenue.

7 Q. Your revenue picture?

8 A. Yes, sir.

9 Q. Now, you use this phrase "traffic mix"
10 quite frequently through your brief. I wonder if you
11 could just define that a little more precisely for us?

12 A. It is the constituents, all of the
13 movements that go to make up the whole of the
14 transportation picture.

15 For example, Mr. Brazier, up until four years
16 ago, there was very little -- there was little sulphur
17 produced in the Jumping Ford field at Cochrane.
18 Within the last four years, as a result of the natural
19 gas pipeline, there is more and more sulphur being
20 produced in Alberta.

21 So, there is a change in your mix. You have
22 an increase in one particular set of commodities you
23 did not have before.

24 Another example would be potash in Saskatchewan.
25 Now, we did have a movement of potash last year, quite
26 considerable, and we had hoped it would be continuing
27 into this year, from a place called Potasco, which is
28 just east of Saskatoon. We had a considerable movement
29 last year, but they ran into difficulties in the main
30 shaft with water seepage, and it has been closed down,



1
2 but they are confident they will overcome that
3 particular problem and potash will start to move again.
4 Now, these are all changes in the traffic mix.

5 Q. Then, would it be true to say that your
6 traffic mix changes from month to month, year to year;
7 it is always subject to change, is it not?

8 A. It is a changing picture.

9 Q. It is subject to change all the time.

10 A. It is a changing picture.

11 Q. Would the Canadian Pacific Railway think
12 of going to the Board of Transport Commissioners and
13 saying, we have had a change in traffic mix; therefore,
14 we want an increase in freight rates. Our wages have
15 remained the same, our cost of money is the same, and
16 our material prices are all the same, but our traffic
17 mix has changed and therefore we need an increase in
18 rates?

19 A. Well, I would not go so far as to say we
20 would or we would not. It would depend upon the
21 circumstances, Mr. Brazier.

22 Q. You actually are hesitant to say that the
23 C.P.R. would not go to the Board for an increase under
24 circumstances such as that?

25 A. Well, you would have to look at the --
26 to look at our earnings and the permissive level of
27 earnings in relation -- the two things in relation to
28 each other. And it would depend upon the circumstances,
29 Mr. Brazier.

30 Q. Yes. Now, in your general increase cases



1
2 you and I both heard many times a phrase that the rates
3 must be fair to the railway and fair to the shipper?

4 A. Yes, sir.

5 Q. When that phrase is used in general
6 freight rate cases, what connotation has it so far as
7 the shipper is concerned?

8 A. The rates be fair to the shipper.

9 Q. Well, who are you speaking about? The
10 shippers?

11 A. Well, in the final analysis it is the cost
12 of moving the goods, Mr. Brazier. Who actually pays the
13 cost of transportation is a question that has been a
14 question of some considerable discussion around here;
15 whether it is the actual shipper or the consignee, the
16 fact remains that transportation is in the price of the
17 goods.

18 Q. What I would like to know is are you
19 speaking of the shipper as a whole body of shippers in
20 Canada or are you referring to a specific shipper in
21 various parts of Canada?

22 A. The shipping body as a whole.

23 Q. That is all you are referring to?

24 A. That is right, sir.

25 Q. And you never examined the situation to
26 see whether it is fair to individual shippers or groups
27 of shippers?

28 A. Well, we are examining them every day, Mr.
29 Brazier. People come to us every day with rate problems
30 and we are dealing with them all the time.



1
2 Q. That is in between increases, I suggest to
3 you?

4 A. And immediately after.

5 Q. And immediately after?

6 A. Yes, sir.

7 Q. Your theory is that you put the increase
8 on all rates and then you start negotiating thereafter?

9 A. Well, this is the fairest way of doing it,
10 Mr. Brazier, in that if there are any difficulties we
11 are certainly prepared to examine them afterwards.

12 Q. Now, over the last -- well, since the
13 post-war increases started, the amount of class rated
14 traffic which you have handled has gone down, has it
15 not?

16 A. It has reduced in volume.

17 Q. Give me the approximate range from 1948
18 to 1958 -- that ten year period? What are the degrees
19 in the volume of your class-rated traffic?

20 MR. SINCLAIR: By revenues, or by tons?

21 MR. BRAZIER: By tons.

22 THE WITNESS: By tons?

23 MR. BRAZIER: Yes.

24 THE WITNESS: Well, now, these are figures
25 taken from the Board's Waybill analysis, and when the
26 Waybill analysis first started out, it was on a
27 different basis than now. You are not actually
28 comparing like with like. I think you have to go to
29 1951.

30 MR. BRAZIER: Q. That is fine.



1
2 A. And in terms of weight, it was 4.1%.

3 Q. How many tons does that represent?

4 A. 47,566.2.

5 Q. Tons?

6 A. That is tons.

7 Q. Have you got the 1959?

8 A. In 1959 it was 12,977.6, 1.7%.

9 Q. 1.7%?

10 A. Yes.

11 Q. Those figures indicate loss in class-rated
12 traffic?

13 A. Not loss; move to other types of rates, Mr.
14 Brazier.

15 Q. Some of them have moved to other types of
16 Rates?

17 A. That is right. Normal commodity, for
18 example.

19 Q. Some went to trucks, too?

20 A. I would not say that some went to trucks.
21 I would say some went to movement under trucks
22 comparative rates and agreed charges.

23 Q. Would you deny some went to trucks?

24 A. Oh, some went to trucks.

25 Q. There are at the present time by tons only
26 1.7% of your traffic shipped under class rates?

27 A. That is according to the Board's Waybill
28 study, yes.

29 Q. Is that correct?

30 A. That is right.



1
2 Q. In view of that, would you still adhere
3 to the opinion that the class rates are just and
4 reasonable rates?

5 A. I certainly would, sir.

6 Q. Good. And would you think that the class
7 rates, the revenue from the class rates being maximized
8 they are held at their present level?

9 A. The revenue from the class rates is being
10 maximized if they are held at their present level?

11 Q. Yes.

12 A. I would say yes, they are.

13 Q. Have you ever investigated to see whether
14 or not your class rates could be reduced to maximize
15 your traffic? The revenue?

16 A. Reduced?

17 Q. Yes.

18 A. Well, I would say, Mr. Brazier, that the
19 net revenues have been maximized through the use of
20 normal commodity rates and competitive carload rates.

21 Q. Now, have you ever done a study to see
22 whether or not your revenue from class rates could be
23 increased by lowering those class rates?

24 A. No, sir.

25 Q. You have never considered that?

26 A. No, sir.

27 Q. You are quite satisfied that the present
28 rate structure in Canada is a complex one?

29 ... Well, it is complex to the people who do
30 not understand it because, after all, Mr. Brazier, we



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1
2 are handling the full range and compass of this
3 country in this. We are handling fresh vegetables, we
4 are handling dry vegetables, and vegetables fresh or
5 frozen. We have to make provision for all these
6 different types of commodities and materials.
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2 Q. On page 4 you make the flat statement
3 that the Canadian freight structure is complex. Do
4 you want to clarify that statement by saying it is
5 complex for those who do not understand it?

6 A. It is complex.

7 Q. And you have to file many amendments to
8 your tariff on thousands of rates each year?

9 A. That is true, we make many, many changes
10 according to conditions of carriage and competition.

11 Q. How many individual changes, approxi-
12 mately, did you make in the last year in your present
13 rate structure? Just let me have it in rough round
14 figures.

15 A. During the first six months of this
16 year there were 2200 changes.

17 Q. Twenty-two hundred changes in rates?

18 A. Yes, 2242, to be exact.

19 Q. Would you say, Mr. Roberts, that railway
20 men generally are satisfied with the present rate
21 structure?

22 A. Are satisfied with the present rate
23 structure?

24 Q. Yes.

25 A. We are always endeavouring to improve
26 it. I would not say we are satisfied, because by
27 improving it we endeavour to improve our position
28 netwise, net revenue-wise.

29 Q. But generally speaking railway men do
30 not want to see any fundamental change in the structure?



1
2 MR. SINCLAIR: Leaving out grain.

3 MR. BRAZIER: Q. Yes, leaving out grain.

4 A. This system has been tested over the
5 years and we think it meets the requirements of the
6 country.

7 Q. And is that opinion as you generally find
8 it in railway circles both here and in the United States?

9 A. There are a lot of railway men in the
10 United States and I cannot speak for them. I can only
11 speak for our people in the Canadian Pacific and I think
12 I can go along and say the Canadian National too.

13 Q. I would like to read to you out of
14 Transportation Week. This is the issue of September
15 24 -- I beg your pardon, it is Traffic World of
16 September 24 of this year, and it is a statement
17 attributed to Mr. H. H. McLean, vice president and
18 general counsel of the Pittsburgh and Lake Erie
19 Railway Company.

20 MR. SINCLAIR: He lost the job with the
21 New York Central and he is just into a branch line now.

22 MR. BRAZIER: Maybe it was because the New
23 York Central were immune to changes.

24 MR. SINCLAIR: If you take a look at their
25 history you will find they have made many changes.

26 MR. BRAZIER: Q. Well, just listen to this
27 and see if you agree with it or not:

28 "Intercarrier competition has, of course,
29 had a tremendous effect upon railroad rates.
30 Railroad men used to speak of the 'rate



1
2 structure' as a system of related rates
3 and charges that represented intricate
4 adjustments based upon value of the article,
5 distance transport and a host of other
6 factors. There is still a rate structure
7 but it is a tottering one and is rapidly
8 changing in response to competition.

9 "You can all remember the theory of
10 charging what the traffic would bear, or,
11 saying the same thing from the railroad
12 point of view, charging according to the
13 value of the services. This meant that the
14 more valuable commodities paid higher rates
15 and the less valuable commodities paid lower
16 rates."

17 Now, would you agree with that?

18 A. Well, of course, first, and with all
19 due respect, the vice-president is also general counsel.

20 Q. He is not a practical traffic man --I
21 suppose that leaves Mr. Sinclair and myself out com-
22 pletely?

23 A. He certainly emphasizes the value
24 but the value has been one factor in rate making only
25 and there are other factors that are associated with
26 it. I would say he is entitled to his opinion.

27 Q. You do not agree with it?

28 A. I do not agree with it, no, sir.

29 Q. In your brief, or one of the Canadian
30 Pacific Railway briefs, it is stated that the Canadian



1
2 Pacific Railway has the second largest piggyback
3 service of any railway on the North American continent;
4 is that correct?

5 A. I would say that is correct -- it is
6 the largest of any individual carrier on the North
7 American continent.

8 Q. So you could say they have been leaders
9 in this?

10 A. Well, we started three years ago and
11 overhauled carriers in the United States.

12 Q. They actually started the practice
13 before you did in Canada?

14 A. It was in before.

15 Q. And you adopted their practice?

16 A. In essence, yes.

17 Q. Now, on your piggyback what are your
18 rules as to the goods that can be put in?

19 A. You are speaking of Canadian Pacific
20 Railway owned trailer and flatcar service?

21 Q. The service you give to the common
22 carrier.

23 A. Well, the common carrier, we carry
24 the common carrier's trailer and what is inside of the
25 trailer we do not know.

26 Q. And you do not care?

27 A. I would not say we do not care. We
28 would like to know what is in there, but ---

29 Q. As far as performing the transportation
30 service you are not concerned with the contents of it



1
2 at all?

3 A. So far as the transportation service is
4 concerned we carry the loaded trailer.

5 Q. And you pay no attention, I suggest, to
6 the value -- the varying value of the goods that are
7 in the trailer?

8 A. We carry the goods, Mr. Brazier,
9 according to what we term the over-the-road cost.

10 Q. Therefore your piggyback structure is one
11 that is made irrespective of the transportation
12 characteristics of the goods?

13 A. Well, it is another instance of where we
14 are endeavouring to maximize revenue, not revenue.

15 Q. And you find that profitable, this
16 piggyback service?

17 A. Yes.

18 Q. And you are not having to concern your-
19 self with the value of the goods in the trailer.
20 There might be some shoes and there may be some --

21 A. Wait a minute -- there are certain
22 restrictions in respect of insurance now that are not
23 our responsibility in so far as the value of the
24 contents is concerned.

25 Q. But outside of the insurance you are
26 not concerned with the value of the goods?

27 A. We carry a loaded trailer.

28 COMMISSIONER BALCH: Supposing it was a
29 load of explosives, that is not allowed under the Act?

30 THE WITNESS: That is right.



1
2 COMMISSIONER BALCH: So you would have to
3 know?

4 THE WITNESS: They would have to placard it,
5 yes.

6 MR. BRAZIER: Q. Well, the piggyback ser-
7 vice is a very definite departure from the old method
8 of making freight rates?

9 A. It shows, Mr. Brazier, that we are
10 endeavouring to make money in every possible respect.

11 Q. A very laudable objective. The same
12 page, the next paragraph, you say:

13 "A freight rate structure must be realistic.
14 The test of its realism is that it moves
15 traffic freely."

16 Now, what standard do you have by which you judge
17 traffic is moving freely or otherwise?

18 A. By our field men watching the flow of
19 traffic and noticing any fall-off.

20 Q. You take an industry that has a crop
21 that has to be marked, a perishable crop — let us take
22 the Okanagan fruit growers, you have had a lot to do
23 with them in the last few years?

24 A. Yes.

25 Q. They are always complaining about the
26 high rates you charge?

27 A. That is their story.

28 Q. You do not agree with them?

29 A. No.

30 Q. Take their position. I think you



1
2 realize the industry in the Okanagan has not been
3 very profitable in the last few years?

4 A. Depending upon the size of the crop.
5 They had a poor crop last year; I do not think they
6 did too well, but this year I think they had a good
7 crop and they are anticipating good returns.

8 Q. Well, now, these people who have to move
9 a crop, they just have to pay your rate. Would you
10 say that traffic is moving freely?

11 A. It does move freely according to the
12 market demand.

13 Q. Tell me what you mean by that?

14 A. Well, they cover the market, they fill
15 the requirements of the market.

16 Q. But if they had a free -- if they were
17 not forced into the position of having to ship the
18 fruit because of its perishable nature, would you
19 say from their point of view that is traffic that is
20 moving freely on the railways?

21 A. You are getting away from me here.

22 Q. Let me put it this way: you use that
23 term as long as traffic moves -- the railway, regard-
24 less of the cost of doing it, it is moving freely?

25 A. No, we want the flow of traffic. We
26 have people out at Vancouver in the Okanagan Valley
27 so far as the fruit crop is concerned and they are
28 assessing the movement and the time.

29 Q. And as long as it moves on the railways
30 during the market then you are satisfied it is moving



1
2 freely?

3 A. Yes, because they would tell us if they
4 were in trouble.

5 Q. Well, they have been telling you that
6 in the Okanagan for quite some years?

7 A. Yes, and every year the crop has been
8 moved.

9 COMMISSIONER GOBEIL: By "freely" you do
10 not refer to price?

11 THE WITNESS: I mean freely in so far as we
12 are concerned in relation to the total crop, the flow
13 of the traffic.

14 MR. BRAZIER: Q. Now, Mr. Roberts, I have
15 some figures here from the Bureau of Statistics on the
16 intercity ton miles performed by type of carrier 1948
17 through to 1958 which indicate very clearly that the
18 per cent of the intercity traffic handled by the
19 railways has been continually decreasing?

20 A. You mean percentagewise?

21 Q. Percentagewise?

22 A. Well, of course, we started with a lot of
23 traffic and the trucks started with a very small portion
24 so their growth percentagewise, I suppose, would be
25 greater.

26 Q. I am thinking of the total of the traffic,
27 they have been getting a larger and larger portion of
28 it each year, is that right?

29 A. I do not know. You have the figures there.

30 Q. Here is the figure on rail in 1948 which



1
2 is 70.3% of the intercity traffic. By 1958 it only had
3 58.3%?

4 A. Is this eliminating such things as
5 pipe lines?

6 Q. No, this includes pipe lines and every-
7 thing.

8 Q. Well, of course, you have the pipe line
9 in existence now that did not exist in 1948. In 1948
10 all of your crude oil in western Canada moved in by
11 rail from the United States but Alberta got the Leduc
12 field and we started from there and it is moving
13 by pipe line into Eastern Canada. At this time the
14 crude was brought in by ship from overseas and now all
15 these would be factors. You have a bigger pie, and
16 these different forms of transportation.



1
2 The pipe lines are participating in it.

3 Q. Are you trying to say to me that per-
4 centagewise the railways are not losing ---

5 A. Percentagewise our proportion of the
6 total traffic is lower.

7 Q. Is lower?

8 A. I just do not want factors such as these
9 to be overlooked, that is all.

10 Q. I appreciate that a lot of adjustments
11 have to be made in general figures like this but it is
12 my suggestion, and I think we have had it from very
13 senior railway officials before this Commission that
14 the trucks have made a great inroad on the traffic of
15 the railways during the last few years?

16 A. That is true.

17 Q. So obviously that traffic which the
18 trucks took away from the railroads was not moving
19 freely on the railways?

20 A. I would not say they took it away at all.
21 This is traffic that has grown with the country and
22 which for various reasons they have taken.

23 Q. I thought we just established the fact
24 that the trucks over the last ten years took a lot of
25 traffic away from the railways?

26 A. But they took this traffic from the
27 industry as it developed, that is what I am getting at.

28 Q. And you have not lost any traffic to
29 the trucks?

30 A. Of course we have, that is quite right.



1
2 Q. Whatever the percentage is, if it is
3 one per cent or ten per cent, I suggest to you that
4 that traffic was apparently not moving freely on the
5 railway or you would not have lost it?

6 A. I would say it was not moving at all,
7 a lot of it is new traffic.

8 Q. You just said you have lost some
9 traffic which you formerly had?

10 A. We have lost some traffic, yes.

11 Q. You lost some traffic which you formerly
12 had so let us concern ourselves with that. Traffic
13 which you have lost which has actually been taken away
14 from you by the trucks. Now, dealing with that
15 segment of the traffic alone, I suggest to you, that
16 it was apparently not moving freely on the railways
17 or else you would not have lost it to the other forms
18 of transportation?

19 A. I would say the traffic moving by truck
20 moved by truck, some of it, for certain reasons of
21 service or the fact that it is going to off-track
22 deliveries. There are all kinds of features that
23 enter into it.

24 Q. I appreciate that.

25 A. And we have lost some traffic to them
26 because they may be quoted a lower rate.

27 Q. I am trying to see if you will admit
28 that the traffic that you lost apparently was not
29 moving freely on the railways?

30 A. Well, if we were handling it it must



1
2 have been moving.

3 Q. Now, I think this is another one of your
4 basic suggestions that the whole field of traffic
5 handled by the railways today is competitive?

6 A. There is none of it that is -- it is
7 competitive in some way or another, Mr. Brazier, it
8 is competitive by reason of the fact that other
9 transportation agencies could enter into it, it is
10 competitive by reason of the fact there are alter-
11 native types of production or maybe alternative
12 sources of supply.

13 Q. So everything is competitive?

14 A. I would say so, yes.

15 Q. You certainly do not flag your tariffs
16 at all that way?

17 A. Well, they are competitive because as
18 I say there are other factors than transportation in
19 some extent that enter into it.

20 Q. Now, at page 8 you made some reference
21 to a department store. Would you think in a depart-
22 ment store if the price of ladies' shoes went up the
23 department store would increase the price on corn
24 flakes?

25

26

27

28

29

30



1
2 A. Well, you are dealing with one specific
3 commodity. I am talking here of wage costs which would
4 be spread over the entire store.

5 Q. Over every ---

6 A. Well, I would say they would attempt to
7 get it from everything.

8 Q. Do you know anything in a department
9 store that is not competitive?

10 A. Not offhand.

11 Q. The do not have any particular part of
12 their business where they have a monopoly position at
13 all?

14 A. Not that I can think of.

15 Q. But you say that is the same as the
16 railways?

17 A. I say they use the same principle.

18 Q. But their circumstances are exactly the
19 same as your circumstances?

20 A. Yes.

21 Q. On page 9 you say there is a wide
22 variation in contribution over variable costs made by
23 different rates: I wonder if you could give me in broad
24 outline the variations? How wide is this variation?

25 A. Well, I think that the Board's Waybill
26 study would be of some assistance in the revenue per
27 ton mile we obtain from the different types of
28 traffic. To pinpoint, I do not know.

29 Q. You make reference to the revenue per
30 ton-mile?



1
2 A. Yes.

3 Q. I am asking you about costs -- not
4 revenue. You are not referring to revenue here. You
5 say that a wide variation in the contribution over
6 variable cost -- frankly, I fail to see any relationship
7 between revenue and cost, and I want to know, in this
8 cost, what is the variation?

9 A. Well, it is the contribution from certain
10 types of traffic above variable.

11 Q. I appreciate that, but I want you to tell
12 me that it varies in some cases from 1% to 100% or 400
13 or 500 -- what is the range of variation?

14 A. I would say it would go as high in some
15 instances as 300, maybe 400%.

16 Q. 300 or 400%?

17 A. Quite possibly, and down to a range of
18 above variable costs.

19 Q. It is fundamental to the rate structure
20 as it exists now that no traffic goes below variable
21 costs?

22 A. That is right, other than the statutory
23 grain rates.

24 Q. So, in that respect you have no quarrel
25 with the proposition put to this Commission by the
26 province of British Columbia?

27 A. The fact that ---

28 Q. ...no rates should be below out-of-pocket
29 costs?

30 A. I would agree with that.



1
2 Q. Yes, and you would have no objection to
3 that being made a rule because you follow that now?

4 A. We follow it now.

5 Q. So, you would not be hurt by that at all?

6 A. No, sir.

7 Q. How often do you check your bodies of
8 rates to see whether or not they are below out-of-
9 pocket costs?

10 A. Well, it is a continuing process, Mr.
11 Brazier, in meeting competition. So far as normal
12 rates are concerned, this is one example here in
13 connection with statutory grain that is before the
14 Commission now, and I have started a short time ago
15 a complete study of all of the traffic moving at
16 commodity mileage scales to assess the revenue from
17 those scales.

18 Q. What about competitive rates?

19 A. Competitive rates should be examined in
20 the light of competition. I guess they are examined
21 when they are established, certainly, Mr. Brazier,
22 and subsequently if there is any cause for suspicion
23 at all in connection with them.

24 Q. Mr. Roberts, I have worked out a little
25 table here in reference to your tariff E 1355-F CTC
26 5253. It is a competitive tariff, I believe -- all
27 types of general commodities, Montreal to Toronto?

28 A. Yes.

29 Q. The mileage as I have it is 335?

30 A. Montreal to Toronto, that is right.



1
2 Q. I have listed down the rates, and of
3 course, unfortunately, I do not know your costs, but
4 I have taken out of the ICC cost study their out-of-
5 pocket costs both for 300 and 400 miles and for the
6 various minima.

7 MR. SINCLAIR: What ICC costs? Average
8 costs by district?

9 MR. BRAZIER: This is average costs for the
10 western districts -- out-of-pocket.

11 Q. I wonder if you would look at that table
12 -- the eastern ones, of course, would be higher than
13 that; the costs in the east would be higher -- oh, I
14 am sorry: these are the eastern. The comparison of
15 the rates you charge and these costs indicate, except
16 at the 60,000 pounds minimum, your rate is below their
17 out-of-pocket costs?

18 MR. SINCLAIR: We will never follow this on
19 the record.

20 MR. BRAZIER: I will file this.

21 MR. COOPER: Perhaps Mr. Brazier could
22 identify the columns by numbering them.
23
24
25
26
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Tariff E 1355-F

GTC 5253

Item 2220

July 4, 1960.

All types of General Commodities.

Montreal & Toronto.

335 miles

★
out-of-pocket cost.

<u>Min.</u>	<u>Rate</u>	<u>300 miles</u>	<u>400 miles</u>
20,000	45¢	72.3	84.3
24,000	40¢	61.1	71.4
30,000	38¢	50.0	58.4
40,000	36½¢	38.8	45.5
60,000	33½¢	27-7	32.5

★ Eastern District Box Car, 1958. 40% empty return.
ICC Statement 2-59.

MR. BRAZIER: Q. Taking one or two
instances here where the minimum weight is 20,000
pounds, your rate is 45¢?

A. That is right.

Q. And this cost study shows -- I put it to
you, and you can check it later -- that at 300 miles
the out-of-pocket costs are 72.3¢.

A. In the United States?

Q. Yes.

A. Yes.

Q. The eastern. For 400 miles they are
84.3¢?

A. I will accept that.



1
2 Q. Likewise, taking just one other example,
3 30,000 minimum, the rate is 38¢?

4 A. That is right.

5 Q. And their out-of-pocket costs show 300
6 miles at 50¢, and at 400 miles, 58.4¢?

7 A. That is right.

8 Q. Are the out-of-pocket costs of the
9 Canadian Pacific that much lower than the American
10 out-of-pocket costs?

11 A. Well, that is something that I do not
12 feel I should answer here, Mr. Brazier. Those are
13 average costs and I do not know the basis for them.
14 There may be three or four railways involved in them.
15 I do not know.

16 Q. Have you tested that tariff to see
17 whether or not it is above your out-of-pocket costs?

18 A. We know it is.

19 Q. I have one other -- and I do not want
20 to leave the impression this is all east, Mr. Roberts.
21 I have one here in the province of Alberta: I have
22 got the C.N.R. tariff here between Edmonton and
23 Calgary, and I suppose your tariffs are the same
24 between those two points?

25 A. I would say they are -- rates are the
26 same.

27 Q. A distance of 195 miles?

28 A. Yes.

29 Q. And you have a rate at 24,000 pounds in
30 group (A) of 30¢?



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A. I will accept that.

Q. Loaded in box cars?

A. Yes.

Q. My information is that the ICC out-of-pocket costs for that distance, that weight, is 2.2¢.

MR. SINCLAIR: Mr. Chairman, I must object again. The ICC cost for that distance is not in Alberta.

MR. BRAZIER: We have not got the C.P.R.

MR. SINCLAIR: And as far as I am concerned you are not going to get them.

MR. FRAWLEY: If we had yours we could check them.

MR. SINCLAIR: Well, you are not going to get them.

MR. FRAWLEY: That is your attitude, and that will continue.

MR. SINCLAIR: Absolutely.

MR. BRAZIER: Q. 30,000 pounds, the rate is 26¢, and the ICC costs shown for that distance and that weight in box cars is 34.45¢?

A. That is right.

Q. So, certainly, if you were working at ICC out of pocket costs those would be below out-of-pocket?

A. Of course, those rates were examined by the Board and found to be fully compensatory.

COMMISSIONER GOBEL: Q. Can they find out if they are compensatory?



1
2 THE WITNESS: We had a case before them two
3 years ago in connection with those rates, and they
4 asked us to supply our costs, and we did so, and they
5 satisfied themselves -- to the Board.

6 THE CHAIRMAN: Have you got the Moncton-
7 Calgary costs?

8 THE WITNESS: We did it for the whole range
9 of the rates -- that is, incentive rates in western
10 Canada.

11 MR. BRAZIER: Q. Turning to page 13, "A
12 number of people attempt to divide freight traffic
13 between 'captive' and 'non-captive'. This type of
14 approach is foreign to a practical traffic man. "
15 Why do you state that?

16 A. Well, there is no such thing as "captive"
17 traffic. It is moving --a lot of traffic is moving
18 rail because of the low basis of rates. A lot of the
19 basic commodities are moving rail because of the basic
20 rates that are in effect.

21 Q. If a phrase is used which is perhaps
22 more common to the practical traffic man of
23 "competitive" and "non-competitive" traffic, would
24 that be foreign to you?

25 A. "Competitive", Mr. Brazier, of course
26 designates either competition with another form of
27 transportation or market competition; and "non-
28 competitive", that is to say, there is no other rail
29 transportation competing for the products at the
30 level of rates that we have in effect.



1
2 Q. The use of the phrases would not be
3 foreign to you as a practical freight man?

4 A. No, sir.

5 Q. But you do find "captive" and "non-
6 captive" foreign to you?

7 A. Yes, sir.

8 Q. Mr. Cooper asked you this morning a
9 question about what costing procedures you go through
10 -- you, as the practical freight man?

11 A. Yes, sir.

12 Q. I would like you to expand upon that a
13 little more: supposing you have a shipper who comes
14 into you and wants a new rate: what costing do you
15 do?

16 A. If it is a normal commodity rate it is
17 on the basis which applies to those normal commodity
18 rates. This is a basis that under our system of
19 rate making the man is entitled to, and we are able to
20 assess that against -- we have bench marks against
21 which to assess that.

22 Q. These bench marks -- I would like you
23 to tell me in full what actual bench marks you use?

24 A. Well, to start with, we have our own
25 system, average revenues per ton-mile.

26 Q. That is revenue per ton-mile?

27 A. That is right, and per car-mile, and
28 then we have basic information which is available to
29 us supplied by our research department.

30 Q. Are those all the bench marks that you



1
2 have?

3 A. I think they are very important ones.

4 Q. If you are costing out a particular
5 traffic, what relationship is there between the cost
6 of handling that traffic and the system average
7 revenue per ton-mile or per car-mile?

8 A. You know that if you are above it you
9 are all right.

10 Q. Do you not think it is possible to have
11 traffic where your costs are away above your average?

12 A. Well, you are getting out of my field.
13 I cannot answer that question.

14 Q. If the rate that is suggested meets
15 these bench marks ---

16 A. I did not say "costs". I said average
17 revenue per ton-mile.

18 Q. I know you said revenue, but I am
19 trying to find -- you are supposedly doing a lot of
20 costing now on the railways?

21 A. That is right.

22 Q. Your freight traffic department is
23 doing a lot of costing?

24 A. The freight traffic department is
25 availing themselves of the facilities in our research
26 department.

27 Q. Well, say somebody comes in for a
28 competitive rate -- a new competitive rate and tells
29 you the trucks are going to give him a certain rate.
30 and you want to test and see if you could meet that



1
2 rate or maybe give him a little better.

3 A. No, sir, we meet the competition.

4 Q. You sometimes have to go something a
5 little below the truck rates?

6 A. We have to meet specific situations,
7 such as on truck delivery.

8 Q. Yes, and would you look at that traffic
9 and find out what your average revenue per ton-mile
10 is going to be?

11 A. On the particular movement.

12 Q. Yes.

13 A. The first thing I would drive at is
14 confirm that is what the trucker was charging.

15 Q. Well, say you have confirmed that and
16 you have got to give them a rate?

17 A. Yes.

18 Q. Would the first thing you would do be
19 to look at the revenue per ton-mile?

20 A. I would assess these factors of the
21 revenue per ton-mile and the revenue per car-mile.

22 Q. If the rate suggested is above the
23 system average for these things, would you go further?

24 A. No -- if I satisfied myself that the
25 rate that he alleged was the rate being charged by
26 the truckers, I would be satisfied that it was making
27 a contribution.

28 Q. And it was again above the system average
29 revenue per ton-mile and per car-mile, you would say
30 the rate was all right?



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A. Yes -- well, I would say that.

Q. That it would be above the variable cost for handling that traffic -- would you?

A. Above the variable cost?

Q. Yes.

A. I would say it would be.

Q. That would be the conclusion that you would come to and you would not feel impelled to send it over to the costing section to cost the traffic?

A. No. You see, I can check my average costs from these basic particulars that the research department supply us with.

Q. Does the research department supply you with figures such as average costs per mile of line haul or terminal costs, or anything like that?

MR. SINCLAIR: Mr. Chairman and members of the Commission, the witness has said he gets certain basic data from the research department on costs, and if the Commission wants to see what we have we will be glad to give ^{it} to them on a confidential basis, but we certainly are not going to in this public proceeding say how and what we have, because for one reason Mr. Hart is sitting in the Court Room; the other reason is Mr. Hume or some of his cohorts are, and another reason is that Mr. Brazier is a shipper and we are not going to let him know what it costs to move his lumber and let him try to say that we get more from him than we do from the Bell pole. Further than that, I have said to this witness in



1
2 connection with these questions that that is as far
3 as I say he should go.

4 MR. BRAZIER: Mr. Chairman, I am not asking
5 Mr. Roberts to tell me how much the per mile costs on
6 the main line haul are. I just want to know if that
7 is part of the basic information he gets from the
8 cost service. I am not asking for the figure, but
9 does he get that type of information?

10 THE WITNESS: We get basic information from
11 our research department, Mr. Brazier.

12 MR. BRAZIER: Q. I am not trying to tie
13 you to any figures, but they may say that it costs
14 us 2¢ a ton-mile to move freight over our lines ---

15 A. They have a figure ---

16 Q. Do not tell me the figure.

17 A. They take certain factors into
18 consideration..

19
20 --- A short recess ---
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2 THE CHAIRMAN: Order, please.

3 MR. BRAZIER: Q. Mr. Roberts, this morning
4 you told Mr. Cooper that -- he asked you how much
5 costing was done by the railways nowadays, and you
6 said you might have two or three cases yourself in a
7 day which you would refer to them and your traffic men
8 in other parts of the country would be referring
9 problems to them. So, I take it on the whole they
10 get quite a number of these requests for costing
11 figures?

12 A. It runs, as I said also to him, in
13 cycles. Sometimes you run into situations where
14 you have a number and other times there are not too
15 many over a period.

16 Q. I would presume from that that over the
17 past few years the C.P.R. has accumulated a lot of
18 information about cost?

19 A. Well, the Research Department give us
20 the figures. What they have accumulated, I do not
21 know.

22 Q. When you send these requests in, do
23 the answers come back readily, or is it a matter of
24 six months or a year's study before you get the answer?

25 A. It varies, also, the time it takes.

26 Q. I am talking about those you send in
27 two or three in a day?

28 A. Well, it varies. I could not put a
29 time on it, Mr. Brazier.

30 Q. Well, what is the shortest period, then,



1
2 in which you might get the answer back?

3 A. Oh, in a day on occasion. I suppose
4 it depends upon the problem you put to them.

5 Q. Yes.

6 THE CHAIRMAN: Sometimes there would be
7 field work?

8 THE WITNESS: That is right, sir. That
9 is in connection with some costing, there may be
10 necessary to have field work.

11 MR. BRAZIER: Q. But some of them are done
12 in a day?

13 A. On some occasions, yes.

14 Q. And some covering a wider range of
15 traffic, I suppose they take longer?

16 A. Even individual movements may take
17 longer.

18 Q. Now, on page 14 there is another little
19 phrase there that appears to be a little foreign to
20 me, Mr. Roberts. You say:

21 "The proportion of the railway traffic
22 which moves at class or commodity rates and is not
23 marked 'competitive' for the reasons I have just
24 given, represent a larger proportion of the total
25 traffic in some areas of the country than in other
26 areas of the country."

27 Now, are you suggesting thereby that some of
28 your class rates are in fact competitive rates?

29 A. Are in fact competitive rates?

30 Q. Yes.



1
2 A. Well, I guess, to this extent that the
3 trucks in some parts of the country, I believe, do
4 publish our class rates. They are prescribed, I
5 think, by Saskatchewan.

6 Q. Your own class rates?

7 A. Yes, the railway class rates, as I
8 recall.

9 Q. But you do not mark them competitive
10 when that happens?

11 A. No, sir.

12 Q. You have had commodity rates which you
13 have carried long years, and then you suddenly dis-
14 covered they were actually competitive?

15 A. Well, we had an example of lumber and
16 fruit from British Columbia.

17 Q. I take it, too -- I want to go over a
18 minute now to your Exhibit 160, and generally speaking
19 I take it this exhibit is an attempt on the part of
20 the Canadian Pacific Railway to show that the burden
21 of the 17 per cent increase did not fall on any
22 particular area of the country? It was divided
23 amongst all areas?

24 A. That is the purpose of it. It is to
25 show the impact of the increase.

26 Q. The impact on the economy of the
27 particular areas?

28 A. That is right, sir.

29 Q. So, as I read it here, and I just want
30 to take it within Ontario and Quebec, you have got



1
2 \$65,000 of the increase, odd, out of that traffic?

3 A. That is correct, sir.

4 Q. Which is 11 per cent. And within the
5 west you get just slightly less revenue?

6 A. That is correct.

7 Q. Yes. And 11.1 on the total?

8 A. Yes.

9 Q. Now, have you considered those at all,
10 Mr. Roberts? I presume you would agree that in
11 measuring the burden of an area you would have to take
12 into consideration the population of the areas, would
13 you not?

14 A. Well, the population and the amount of
15 traffic handled.

16 Q. I suggest to you, and I have here the
17 very latest figures, the first of September, 1960,
18 population figures for Canada taken today from the
19 Dominion Bureau of Statistics. Areas within Ontario and
20 Quebec, 11,370,000 people, whereas in the four western
21 provinces there are only 4,739,000. That is more
22 than twice the population in Ontario and Quebec, as
23 against the western provinces.

24 Will you accept those figures as being correct?

25 A. I would accept those figures.

26 Q. Yes. So, I suggest to you that that
27 indicates on a per capita basis the burden of this
28 increase has been much heavier in the west than it
29 is in the east?

30 A. Well, spread over the number of people



1
2 in the western provinces, this is what it indicates,
3 but also, likewise, you have to take into account,
4 I would say, the service performed by the railways
5 within western Canada and within Ontario and Quebec.

6 Q. There would be no doubt in your mind
7 that the table, taking just those two figures I have
8 taken there, that the people within those areas would
9 bear those freight rates, either the producers or the
10 consumers?

11 A. Or the people they sell their goods to,
12 Mr. Brazier.

13 Q. Well, they are all in the area, though?

14 A. Well, there is in here, of course, and
15 included within western Canada, for example the coal
16 that moves to Port Moody for export, and the sulphur
17 and things like that; the primary products.

18 Q. Moving for export?

19 A. Yes, sir.

20 Q. A very substantial amount?

21 A. Not for export; it is for use by the
22 mills on the coast -- the coal. But the sulphur
23 is for export.

24 Q. That is all within the area?

25 A. That is all within the area.

26 Q. I suggest to you on the basis of per
27 capita, and you can check these figures, it shows that
28 for all traffic -- that is, taking both the non-
29 competitive and the competitive and agreed charges --
30 per capita in Ontario and Quebec the burden was \$5.86.



1
2 In western Canada, it was \$13.56. And I also have
3 the maritime figure worked out here at \$8.72.

4 Then, if we take the same burden study for
5 just the non-competitive traffic, Ontario and Quebec,
6 it was \$2.07. In the west it was \$7.93. In the
7 maritimes, \$5.15.

8 Now, with those figures before you, I
9 suggest to you that they do indicate that certain
10 regions of Canada bore a much heavier burden from
11 that increase than others?

12 A. Well, the traffic that is moved within
13 the territory — not necessarily the people themselves.
14 Because, as I say, there is certain traffic that
15 moves outside Western Canada. It originates and it
16 terminates in western Canada, but it is destined
17 beyond.

18 Q. That would not be very important to
19 these figures?

20 A. I would say the coal from southern
21 Alberta and British Columbia is important for export
22 these days.

23 Q. To Vancouver?

24 A. Through Port Moody.

25 Q. How much in there?

26 A. Well, there is over 200,000 tons. I
27 think pretty close to 300,000 tons moving this year.

28 Q. But on the figures which you have here,
29 what difference would it make in these figures?

30 A. I could not say offhand.



1
2 Q. I suggest to you maybe at that time
3 that traffic was going to Seattle; it was not going to
4 Vancouver?

5 A. In 1958?

6 Q. It was going to Seattle then?

7 A. No, it was moving through Vancouver
8 last year.

9 Q. In December, 1958?

10 A. No, but it certainly moved into --
11 the bulk loading facility opened in Vancouver in
12 Port Moody.

13 Q. June or July?

14 A. It may have been that late. It may
15 have been that late.

16 Q. I suggest to you, Mr. Roberts, that
17 it won't make any important change in those figures?

18 A. I may not.

19 Q. I just want to take you through another,
20 and I am sorry I haven't had time to draw a fancy
21 diagram, Mr. Roberts, but I want to take you through
22 this particular situation.

23 First, can I ask you this. Would I be
24 right in presuming that there are rates in Canada
25 that are equal to the fully distributed cost of
26 moving the traffic?

27 A. The fully distributed cost? Well,
28 we can take that assumption, I am sure, that there
29 must be some.

30 Q. There must be some?



1
2 A. Yes.

3 Q. And you gave me the range over variable
4 cost but can you tell me this. Would there be some
5 traffic that might carry a rate which is double the
6 fully distributed costs?

7 A. It is possible, yes.

8 Q. And that ties in with the variation of
9 over variable costs which you stated previously? Maybe
10 three or four hundred per cent?

11 A. Yes.

12 Q. Well, now, this has application to the
13 horizontal increase?

14 A. Yes.

15 Q. And take this -- I will try and do this
16 so that we get it on the record, too. You have a
17 rate, a \$2 rate which is exactly equal to the fully
18 distributed costs; a \$2 rate?

19 A. Yes.

20 Q. You have another \$2 rate which is just
21 double your fully distributed costs. So that that
22 rate is today making a contribution of \$1 over and
23 above its fully distributed costs?

24 A. Yes.

25 Q. You follow that?

26 A. Yes.

27 Q. Now, your costs go up 20 percent?

28 A. Yes.

29 Q. So, you apply and get permission from
30 the Board to increase your rates by 20 per cent?



1
2 A. Yes.

3 Q. Yes. Now, the man who was paying
4 fully distributed costs, these costs have actually gone
5 up 20 per cent?

6 A. They have gone up.

7 Q. I am sorry. I should have said a 10
8 per cent increase in costs, to go along with my figures.
9 There is a 10 per cent increase in costs?

10 A. Yes.

11 Q. So, his fully distributed costs now
12 come up to \$2.20?

13 A. Yes.

14 Q. So he is still paying his fully distri-
15 buted costs; is that right?

16 A. Well, you are getting out of my field.
17 If the fully distributed cost were \$2. and you add
18 10 per cent to it, it is \$2.20. And it has gone up,
19 presumably. The 10 per cent just reflects costs.

20 Q. The fully distributed costs. I do not
21 care what you put in it, I will be very generous with
22 you on this question of costs, but that is what your
23 costs have gone up?

24 A. Yes.

25 Q. So, this man is still paying the fully
26 distributed costs?

27 A. Yes.

28 Q. So this other man, B, his fully distri-
29 buted costs were only \$1?

30 A. Yes.



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Q. But his rate was \$2?

3

A. Yes.

4

Q. So his rate still goes up to \$2.20?

5

A. Yes.

6

Q. But his costs have only gone up 10 cents?

7

A. Yes.

8

Q. Is that right?

9

A. Yes.

10

Q. So, whereas before he was making a

11

contribution of \$1 over and above his fully distributed

12

costs because your costs have gone up, he is now making

13

an additional 10 per cent, or 10-cent, donation to

14

your overall -- you agree with that?

15

A. So far as I am concerned, Mr. Brazier,

16

the increase is spread proportionately for both rates,

17

now, since these rates were the rates that moved the

18

traffic and this is what I look at. This is what

19

I examine.

20

Q. You think that that situation is fair

21

to the shipper who has the fully distributed costs of

22

\$1, and yet a rate of \$2 to start with? You think

23

it is fair to ask him to pay an additional 10 cents

24

over and above the additional costs?

25

A. Mr. Brazier, if his traffic is moving

26

freely, yes, by rail.

27

Q. And you see nothing unfair in that to

28

the shipper?

29

A. No, sir. No, sir.

30

Q. Now, I want to come, Mr. Roberts, to your



1
2 section dealing with the freight rate structure based
3 upon cost. And, in particular, the proposal in respect
4 thereto presented by the Province of British Columbia.
5 Speaking in very general terms, first, as I read your
6 brief, you have only one objection to the proposal which
7 we put forward?

8 A. What objection is that, sir?

9 Q. That objection being a maximum rate on
10 so-called captive traffic?

11 A. A maximum rate on captive traffic?

12 Q. Yes.

13 A. No, I would not agree with that either,
14 that there is just the one objection to it, Mr. Brazier,
15 because, as I understand, the freight rate structure
16 advocated the rates themselves could differ -- the
17 rates themselves could differ for each part of the
18 country on the same commodity, the same weight, the
19 same length of haul.

20 Q. Now, don't they do that today?

21 A. Apart from competition, they do not,
22 Mr. Brazier, except in the territory west of -- or,
23 in the maritime territory.

24 Q. As far as competition is concerned,
25 which covers all your rates now ---

26 A. Oh, yes, but competitive rates, Mr.
27 Brazier, as they relate to carrier competition, yes,
28 they vary. The balance of the rate structure is
29 predicated on value of service.

30 Q. I think Mr. Harries in his brief the



1
2 other day, had a very good example of quite different
3 parts of the country. The rate I am speaking of was
4 the one he quoted as the ginger ale from Edmonton to
5 Calgary of 23 cents as against competitive rate
6 from Winnipeg to Dryden of 48 cents?

7 A. That is right.

8 Q. For ginger ale?

9 A. That is right.

10 Q. And your rate structure today is full
11 of those?

12 A. Those competitive rates; that is, carrier
13 competitive.

14 Q. Yes. So why does that become an
15 objection to the British Columbia proposal, if you
16 already have a situation in your present ---

17 A. Yes, but we do not have normal commodity
18 rates, Mr. Brazier, differing to different parts of
19 the country.

20 Q. You have -- you say normal commodity
21 rates?

22 A. That is right.

23 Q. You have commodity rates in different
24 parts of the country?

25 A. Specifics. In some instances, yes.

26 Q. Lumber, for instance?

27 A. Well, we have different situations, Mr.
28 Brazier, because out west we have groupings to some
29 extent in our rate structure which we do not have. I
30 do not think now, in eastern Canada. And, likewise,



1
2 in eastern Canada, as I recall it, the Board found
3 that the rates out of the east were all actually carrier
4 competitive under equalization -- in examining them
5 under equalization.

6 Q. What about the commodity, lumber com-
7 modity scales you publish?

8 A. Lumber commodity scales?

9 Q. Yes.

10 A. In the east here?

11 Q. As against the west?

12 A. Oh, they vary, Mr. Brazier. They vary,
13 and they were examined by the Board, but the finding
14 of the Board was that we should leave the status quo
15 in western Canada, and in eastern Canada they are
16 competitive rates, anyway.



1
2 Q. What I am just trying to point out
3 to you is that there is one point of our scheme that
4 you do not like and I suggest to you that it is
5 something that exists throughout the rate structure
6 today?

7 A. Yes, but we do not charge basically
8 more to move vegetables from Ontario into, say, the
9 Quebec market -- I mean on normal rates -- than we
10 do the vegetables from southern Alberta into western
11 Canada.

12 Q. You say your normal rate, tell me this,
13 does not traffic move on these normal rates in
14 eastern Canada?

15 A. I would say yes, sir.

16 Q. Have you got truck competition rates
17 there too?

18 A. Also.

19 Q. You have truck competitive rates. Is
20 it not true, Mr. Roberts, that the rate structure as
21 it exists today is full of differences in rates
22 and in different parts of the country?

23 A. Not as to scales. Not as to com-
24 modity scales, and the class rates, excepting the
25 maritime territories.

26 Q. But you would agree then, so far as
27 competitive rates are concerned and agreed charges
28 that there are differences?

29 A. Yes, sir.

30 Q. And as you have to flag more and more of



1
2 those tariffs that situation will multiply in any
3 event?

4 A. It will grow as the force of competition.

5 Q. I suggest that is not a point against the
6 scheme proposed by British Columbia?

7 A. Well, so far as I am concerned it is
8 indealing with the public, because this is all very
9 well, with all due respect to theories, when you are
10 dealing with the public and the fellow who pays the
11 charges, when the transportation is finished you have
12 a different problem before you. I would certainly
13 have Mr. Frawley down my back and a few other
14 people who are representing the people of their
15 province if I was attempting to charge different
16 rates in different parts of the country to what they
17 thought was the detriment of their province.

18 Q. You look at a specific, in making rates
19 and tying things to something specific?

20 A. How do you mean?

21 Q. Well, you do not like this theorizing
22 about rates?

23 A. Well, you see, we are dealing with
24 something that is moving traffic. We are dealing with
25 the rate structure that is moving traffic and what
26 we write in a book does not apply to what people's
27 reaction will be.

28 Q. You do not look with great favour on
29 these theoretical people?

30 A. Oh, now, don't get me wrong. We have



1
2 people in our organization melding all these different
3 things, that is different viewpoints. I am not saying
4 those things and the people who devise them are wrong
5 at all. I just say so far as our own rate structure
6 is concerned and the fact that we deal with people,
7 you can say they would react a certain way, but,
8 unfortunately, people do not react that way.

9 Q. I would suggest to you, Mr. Roberts,
10 your easiest way out of your difficulties with
11 your customers would always be just to say, "Well,
12 there is the cost of handling that traffic"?

13 A. I am sorry, but it is not that simple.

14 Q. It is not that simple?

15 A. No.

16 MR. SINCLAIR: Is that the way you sell
17 lumber?

18 MR. BRAZIER: Q. All right, that is the
19 No. 1 other point. What are the other difficulties
20 you find in the British Columbia proposal in a
21 practical way?

22 A. I can see in the definition, Mr.
23 Brazier, endless troubles and difficulties with the
24 shipping public in that traffic that was moving at
25 competitive rates above this ceiling that might be
26 prescribed competitive rates then these shippers
27 would be endeavouring to prove to the Board that
28 actually in fact there was not any carrier com-
29 petition and, therefore, traffic should be defined
30 as captive or non-competitive, as we call it. It



1
2 may be that we might also move traffic out of the
3 captive category into the non-captive in order to
4 make something.

5 Q. Well, in that situation, if developed, it
6 would be necessary that your competitive rates were
7 above fully distributed costs?

8 A. Yes.

9 Q. If they were not then no difficulty
10 would arise?

11 A. That is true.

12 Q. Would you think you have a great batch
13 of competitive rates today which are above fully dis-
14 tributed costs?

15 A. In my estimation, certainly enough to
16 cause us concern with a proposal such as this.

17 Q. Well, if the point had to be decided,
18 do you not think the Board of Transport Commissioners
19 could determine the fact as to whether or not com-
20 petition did exist? They have had more difficult
21 things to decide than that.

22 A. Reasonable competition is pretty hard
23 to define, in my estimation; what is reasonable to you
24 is not reasonable to me.

25 Q. The same as just and reasonable rates,
26 what is just and reasonable to you is not just and
27 reasonable as far as I am concerned -- no more
28 difficult a problem than that?

29 A. I would say difficult, yes, it is a
30 more intangible thing.



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Q. More intangible?

A. Yes, sir.

Q. Would I be correct in saying that undoubtedly there is amongst traffic people a reluctance to change any system that they previously used?

A. Well, it is a reluctance, if you want to call it that, to discarding a practice that, in our opinion, is proven and workable.

Q. You do not think the fact that the railways have run into so much opposition in the last ten years that the Government of Canada has seen fit in that period of time to appoint actually three royal commissions to look into railway matters indicate at all that the system is not working?

A. In my estimate I would not say the system is not working.

Q. You would not?

A. No.

Q. You are quite willing to leave it as it is today, make such adjustments as you think necessary?

A. Not that we think necessary, sir, that we decide upon in negotiation with the people who used our railway.

Q. But the final decision is yours to make a change or not?

A. If a man makes a case, Mr. Brazier, we reach, I think, a mutually satisfactory agreement with him.

Q. And you would think the basic approach



1
2 of the Canadian Pacific Railway is just to leave
3 everything as they are and you will work your way
4 out? I am not talking about grain.

5 A. No -- we have done it so far and we will
6 continue to do it.

7 Q. Now, you do in effect have a ceiling
8 today, do you not, on rates in Canada?

9 A. That is right, sir.

10 Q. Your class rates?

11 A. That is right.

12 Q. Are those class rates so far above
13 fully distributed costs plus some further allowance
14 that they make a terrific difference to you?

15 A. How do you mean, they make a terrific
16 difference to us?

17 Q. You do not object to having a ceiling
18 rate today?

19 A. A ceiling rate for the traffic that is
20 not moving frequently to take care of ---

21 Q. Just a ceiling that is away up there,
22 a good high umbrella?

23 A. I do not know how high up you want to
24 say it is.

25 Q. I suggest to you it is so high it is
26 just unrealistic for traffic conditions as they
27 exist today?

28 A. No, sir, I do not think it is unrealistic
29 at all.

30 Q. It gives you a great deal of room for



1
2 covering?

3 A. It does not give us a great deal of
4 room for covering -- how do you mean that?

5 Q. Well, your rates can keep going up till
6 they reach this theoretical maximum that we have today
7 and you can apply for another 20 per cent increase at
8 the beginning of next year and put it on some rates
9 and still be under the ceiling?

10 A. Well, of course, the ceiling rises in
11 a general increase case.

12 Q. It keeps pushing up?

13 A. It moves the traffic.

14 Q. You keep the same area above your general
15 body of rates?

16 A. Proportionately.

17 Q. Proportionately?

18 A. Yes.

19 Q. And, as a matter of fact, the distance
20 stretches a little bit each time because they take
21 higher rates and taking some percentages they go up
22 in dollars and cents a little more?

23 A. In actuality but not proportionately.

24 Q. You think the maximum as suggested by
25 British Columbia -- and I am just paraphrasing your
26 brief, Mr. Roberts -- is that it would be unrealistic?

27 A. Well, of course, I think there is a little
28 doubt as to which is the ceiling.

29 Q. Well, we may explain that later.

30 A. Which is the ceiling? Is there one



1
2 ceiling, as I understand Mr. Hughes to say it will
3 be the variable cost plus the constant cost, the full
4 cost plus something above that and this would rise
5 with increased cost proportionately in order to keep
6 the railways whole. Then, the second that was inter-
7 jected, and I think by you, that this ceiling should
8 remain fixed and only move to the extent that costs
9 move.

10 Q. Let us take on that basis, you fix it
11 at something -- you say to your captive shipper that
12 it is just and reasonable that you should make a
13 contribution of your full cost, fully distributed
14 cost, plus something else.

15 THE CHAIRMAN: He does not recognize the
16 term.

17 MR. BRAZIER: Q. We say the regulatory
18 authority fixed that as a just and reasonable ceiling?

19 A. This is a ceiling that is fixed.

20 Q. And as your cost goes up the ceiling
21 goes up?

22 A. Only to the extent that costs go up.

23 Q. Yes. Well, what is unfair about that?

24 A. Well, I do not think it would keep the
25 railways whole.

26 Q. Well, now, has the Canadian Pacific
27 Railway done any studies to show what the effect of
28 that would be on their revenue position?

29 A. No, not as of this time. However, I
30 can visualize that just the increase in cost, the increase



1
2 in cost being the only factor being reflected,
3 eventually we would be in a deficit position, the
4 C.P.R.

5 Q. If you make an application because of
6 increased cost what other things would be reflected
7 in the increase that you get but the increase in cost?

8 A. There are all the various features that
9 go into the operating of the railways, the cost of money,
10 the income tax ---

11 Q. I have been including all those as
12 costs. Take cost in the broadest sense, making an
13 application based on increased costs why should
14 adjustments be made in the rate structure except on
15 the basis of those increased costs?

16 A. Well, of course, what you are suggesting
17 is what we have now.

18 Q. I do not think so, but go ahead.

19 A. I think it is. You have the ceiling
20 which moves up, now what is the difference?

21 Q. You know our ceiling is not -- the
22 class rates today -- just going to be below what the
23 class rates are today?

24 A. Yes, that would be ---

25 Q. So you have no objection to ceiling
26 rates, you just take objection to the ceiling which
27 we have proposed?

28 A. No, sir. That is right. We recognize
29 that class rates today are a ceiling and we should
30 have them.



1
2 Q. And the reason you object to our proposal
3 is the fear that you may lose a lot of revenue?

4 Q. Not a fear that the Canadian Pacific Railway
5 will not lose a lot of revenue but they would be put
6 in a deficit position.

7 Q. Well, take it step by step. You would
8 lose a lot of revenue?

9 A. That is right.

10 Q. Now, having that fear did the C.P.R.
11 go to the trouble of making a test to see what effect
12 it would have on it? I might have a fear of something
13 and I may be completely wrong about it and I suggest
14 to you that the Canadian Pacific Railway can be too.

15 A. I have not made such a test.

16 Q. Has the C.P.R. to your knowledge any
17 intention of testing to see what the result would be?

18 A. This involves cost again.

19 Q. Would you think, as a man of long ex-
20 perience and a very distinguished career in the railway,
21 would you think it a fair thing to do before they come
22 here to criticize the plan put forward that they would
23 test to see what the result is going to be?

24 A. This would mean developing costs for
25 all movements all over Canada, terminals and other
26 different routes. That is your plan.

27 Q. Well, you have got lots of bench marks
28 now. Have you tried those against your bench marks?

29 A. Those are all averages that are supplied
30 to us.



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2 Q. But the C.P.R. also has all kinds of
3 cost information, they have been doing this for some
4 years now?

5 A. Not to the extent that we anticipated
6 as would be involved in this particular submission.

7 Q. So it is not the intention of the Canadian
8 Pacific Railway to come here and point out to this
9 Commission that as a result of this our revenue position
10 would be affected within a range of \$5 million or
11 \$10 million or anything like that?

12 A. Of course, with such a scheme as you
13 have suggested it would be a tremendous job.

14 Q. Why?

15 A. To develop all the costs that would be
16 necessary.

17 Q. You do not have to bother at all with any
18 of the agreed charges, you do not have to bother at all
19 with any of your competitive rates, you do not have
20 to bother with your international rates. You have
21 got your class rates and some non-competitive com-
22 modity rates. Now, I suggest to you it is certainly
23 no insuperable task or even a particularly difficult
24 task for the C.P.R. to make some estimate of what their
25 loss of revenue would be.

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2 A. In my estimation it would be a
3 tremendous task. That is all I can say to you.

4 Q. So, in view of that, and I take it
5 the company is willing to come here and say it does
6 not approve of this?

7 A. I say that the net result would be the
8 same as it is now -- that we would have a structure
9 that would move the traffic and it would move up in
10 just the way our own does.

11 Q. I suggest to you that is not quite
12 correct, Mr. Roberts, and I think we have agreed on
13 the fact that you do not mind a ceiling -- you accept
14 a ceiling rate?

15 A. Yes.

16 Q. But you think our ceiling is too low--
17 of fully distributed costs plus something; you think
18 that is too low?

19 A. I do not think it would work.

20 Q. You do not think it would work because
21 of the loss of revenue?

22 A. Yes.

23 Q. Having come to that conclusion, do you
24 not think the company could do something about
25 informing the Commission in some way of what their
26 loss of revenue is going to be?

27 A. As I say to you, an assessment of this
28 would be a tremendous task, and I do not think the
29 net result would be any different than we have today
30 in the rate structure.



1
2 Q. Whyt all the opposition to the
3 proposition put forward by British Columbia?

4 A. Because I do not know when such a job
5 would be finished.

6 Q. But if the thing is going to be the
7 same as it is now, what objection have you to the
8 British Columbia scheme being recommended by this
9 Commission?

10 MR. SINCLAIR: I wonder if my friend would
11 say, when he says "the British Columbia scheme", does
12 he mean the scheme put forward by Dr. Hughes, or the
13 British Columbia scheme as put before the Commission
14 by Dr. Hughes as amended by Dr. Brazier? This is where
15 the witness has said he has had difficulty, and he
16 has said it in his submission.

17 MR. BRAZIER: I cannot appreciate that Mr.
18 Roberts has any difficulty at all.

19 Q. I will put it as briefly as I can to
20 you: the British Columbia scheme is that no rate
21 should be less than variable cost -- out-of-pocket
22 costs?

23 A. That is right.

24 Q. And you have no rates today that are
25 that way?

26 A. Exactly.

27 Q. So, to put that in the statute as the
28 minimum rate -- you have no objection to that at all?

29 A. No.

30 Q. As far as competitive traffic is



1
2 concerned we say you can do what you want -- no
3 ceiling?

4 A. That is right.

5 Q. So far as "captive" traffic is
6 concerned the ceiling will either be fully distributed
7 costs or fully distributed costs plus something over
8 and above, which amount would remain constant except
9 when your costs went up, and then that ceiling would
10 move up with the costs.

11 MR. SINCLAIR: Would my friend tell the
12 witness how one measures "something"?

13 MR. BRAZIER: Something?

14 MR. SINCLAIR: Yes, the "something over".

15 MR. BRAZIER: Well, we are going to leave
16 that to the Board of Transport Commissioners. This
17 may have to be 10% or it may have to be 15%.

18 MR. SINCLAIR: But what is going to be
19 the guide? This is where there is a mix-up, if I may
20 say so, Mr. Chairman, and this happened before, and
21 Mr. Roberts has said he does not really know where
22 this is going to be if the ceiling is fixed at such
23 a high level as to anticipate the changes in various
24 things that have to be looked at for a period -- and
25 I think Mr. Brazier said five years. That is one
26 thing, but if he is going to do it on another basis,
27 this is what we do not understand.

28 THE CHAIRMAN: Well, that has been advanced.

29 MR. BRAZIER: Q. Let us look at it on a
30 basis of 110% of fully distributed costs; that is



1
2 going to be the ceiling -- 110%, fully distributed
3 costs. So, if your fully distributed costs go up
4 at any time, then in actual amount 110 goes up too --
5 the ceiling goes up?

6 A. Yes.

7 Q. You say a ceiling such as that will
8 mean a loss of revenue to the Canadian Pacific
9 Railway?

10 A. I would say, yes.

11 Q. And following that, the further fact
12 is that the C.P.R. made no attempt to advise the
13 Commission what the loss of revenue would be?

14 A. As I said to you, this is a tremendous
15 job to evaluate your scheme because, after all, the
16 factors that are involved in it are line haul costs,
17 terminal costs and route costs and they vary
18 according to distance and according to route and
19 according to the type of route -- branch line versus
20 branch line and main line -- and the type of terminal.

21 Q. Could they be averaged out at all?

22 A. I do not know. I am not a cost man,
23 sir.

24 Q. The big criticism, the important
25 criticism you have to make, I take it, on the B.C.
26 scheme is its impact on the financial soundness of
27 railway operations?

28 A. No, sir.

29 Q. Which phrase you use on page 43 of
30 your brief?



1
2 A. No, sir. There is also the question
3 of what I consider would be continual argument as
4 between the shippers on the railway and the railways
5 themselves as to what constitutes competitive traffic
6 and what constitutes non-competitive traffic.

7 Q. You think that is an insoluble problem?

8 A. I think it would certainly be quite a
9 difficult problem. I think we would all be down here
10 in Ottawa before the Board arguing this point twelve
11 months of the year, or pretty close to it.

12 Q. Twelve months of the year?

13 A. Yes, sir.

14 Q. Then I put it that if you have that
15 difficulty, then equally as great a difficulty is the
16 impact on the financial soundness of the railway
17 operation?

18 A. That is a possibility we must consider.

19 Q. As you have described it to me, the
20 railway is becoming more and more and more competitive
21 as years go by?

22 A. That is right.

23 Q. And today it may have reached a point
24 where everything is competitive?

25 A. Well, competitive in what respect?

26 Q. The rates become competitive -- all your
27 rates will become competitive?

28 A. No. When you term a rate "competitive"
29 it is competitive either with another mode of
30 transportation and, as I said before, the measure of



1
2 your rates can make the particular movements
3 susceptible to a substitute product or through
4 different sources of supply. These are the factors
5 we have to contend with.

6 Q. And these competitive factors are going
7 to continue to increase, are they not, as you see them
8 at the present time?

9 A. There will be an increase in competition.

10 Q. What are the railways going to do when
11 everything becomes a competitive rate? Where are they
12 going to get -- they do not earn their permissive level
13 of earnings -- what are they going to do then for
14 additional revenue?

15 A. If we get the statutory grain at a proper
16 level, if we, through technological improvements such
17 as the elimination of firemen on diesels, a reduction
18 in train crew minimum -- the minimum train crew
19 requirements -- increase of certain rates such as the
20 "at and east" grain rates ---

21 Q. And elimination of passenger losses?

22 A. And elimination of passenger losses, yes,
23 we will work towards that; and in addition I think there
24 is a lot of basic tonnage that is going to move out of
25 western Canada from now on, such as the sulphur and
26 the potash and the coal; there is a lot of basic tonnage
27 there that is going to move out of western Canada in
28 years to come..

29 Q. And when all those factors have been
30 taken care of, and the railway is completely competitive



1
2 -- it can no longer be charged as having any monopoly
3 in railway traffic, or transportation; it is entirely
4 a free enterprise, not subject to government control in
5 any way -- how would you get additional revenue?

6 A. I am sorry ...

7 Q. If your rates were not high enough, and
8 you have got a completely competitive transportation
9 system: can you envisage a completely competitive
10 transportation system?

11 A. Well, so far as I am concerned I cannot
12 see the thing being static to that extent.

13 Q. I would not think -- "static", that might
14 be quite a long distance in the future, but it is a
15 possibility of the future?

16 A. Well, it is a possibility, but I do not
17 think that it is going to happen in the next few years --
18 all of these things.

19 Q. You do not think the railways are ever
20 going to become a completely free enterprise and have
21 to look after themselves and get their revenue as and
22 when they can?

23 A. I do not think you can do that because
24 you are going to have to have a ceiling -- I mean, if
25 for nothing else but for the selected psychological
26 effect it has on people who ship over the railway,
27 I think you are going to have that ceiling.

28 Q. You want a ceiling?

29 A. I think you will have that; you will have
30 a ceiling and you will have a floor.



1
2 Q. Even when it becomes competitive?

3 A. I think so.

4 COMMISSIONER GOBEIL: What did you ask, Mr.
5 Brazier? Did you ask if he could envisage that
6 eventually we would have 100% traffic being competitive?

7 MR. BRAZIER: Yes.

8 MR. SINCLAIR: And 100% free enterprise
9 transportation system -- that is, if somebody buys the
10 Canadian National Railways.

11 MR. BRAZIER: Q. The situation I envisage is
12 a completely free enterprise, and they are just making
13 what is being considered a proper return for the railways,
14 and the wages go up \$20 million: what would they do if
15 they are a free enterprise company? How would they
16 absorb that increase in costs?

17 A. The same as the department store: we would
18 increase our prices.

19 Q. Would you increase them as much as you
20 could?

21 A. That is right.

22 Q. But if you could not increase them as much
23 as you wanted to get the full amount, what would you do?

24 A. We would have to cut back.

25 Q. That brings me to one other important and
26 rather fundamental thing in the railway approach to these
27 problems today: I take it from the evidence you gave Mr.
28 Cooper today it is the intention of the C.P.R. to remain
29 in all fields of transportation provided it can make
30 some profit by doing so?



1
2 A. Yes, sir.

3 Q. Do you know whether any consideration has
4 ever been given to concentrating in one branch of the
5 transportation business and making more money than they
6 would otherwise -- mass transportation over long
7 distances?

8 A. Not to my knowledge. All of these
9 different methods of transportation that we are in
10 complement each other. For example, our ships on the
11 Atlantic, our Beaver ships, feed freight into the
12 railway, and we feed freight into it. The trucks
13 complement the railway.

14 Q. So, you are trying to adjust the plant
15 which you have today to the changed conditions and
16 continue on, as one eminent counsel described it at one
17 time, as a transportation drug store?

18 MR. SINCLAIR: He could not have been very
19 eminent. Drug stores sell ice cream and we have not
20 had any for a long time.

21 THE WITNESS: Let us say we are a complete
22 transportation service.

23 MR. BRAZIER: Q. And no intention of changing,
24 so far as you are concerned?

25 A. Not so far as I am concerned.

26 --- Adjournment ---
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